BOSTON UNIVERSITY

GRADUATE SCHOOL

Thesis

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

by

Helen S. Thompson
(B.S. in B.A., Boston University, 1945)
submitted in partial fulfilment of the
requirements for the degree of
Master of Arts
1947

Approved

by

First Reader: Douglas H. Bellemore
Associate Professor of Economics
Douglas H. Bellemore

Second Reader: Leo D. O'Neill
Professor of Economics
Leo D. O'Neil

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Chapter I
Introduction

One of the greatest international problems facing the world today is putting into practice the policy of international economic cooperation to restore world trade and eliminate restrictions and barriers that force countries into blocks or isolation. Immediately following the first World War we saw a period of currency disorders followed by an attempt at reorganizing the monetary systems of the European countries on a gold basis. At the end of a decade this monetary structure collapsed because of maladjustments growing from the war, weak policies in nations that were receiving capital from the United States, and fixing new currency values without giving ample consideration to world conditions.

The basis of international loans was impaired, the United States and almost all of the European countries were off the gold standard and short-term lending was carried on on far too large a scale. The break in economic relations in 1930 prolonged and intensified the subsequent world depression. This was the economic warfare which was carefully thought out and planned by Germany and Japan for aggression. Conquest began by isolating weaker nations (Hungary, Austria, Checkoslovakia) from the world economy and putting them at the mercy of the strong, and eventually producing utter chaos.

During the period of the 29's to the mid 1930's America and the American investors got caught in an epidemic of defaults. In 1931 there was partial suspension of interest

on some $522,000,000 principal amount of foreign bonds. The following year (1932) new defaults occurred on $826,000,000 of bonds, the peak being reached in 1933 with $1,145,500,000 of bonds going into default. The percentage in default was highest for foreign corporate issues.* Even though there would perhaps still be some investors today ready to purchase foreign securities offered directly on our market and indirectly through a World Bank, the number of such individuals would be few.

In 1930 the Bank for International Settlements came into existence under the Young Plan to act as an international clearing house in connection with reparation payments to assist various Central Banks to regulate gold exchange standards, ease credit strains and bring bank governors into closer cooperation. This Bank has been of considerable help in getting the chaotic world out of its plight, but its big fault has been a lack of a broad spirit of internationalism and constant compromise and adjustment to narrow political interest.

In the past, most international loans were made by banking houses to get a commission from the sale of securities and at times without obtaining adequate information and without supervision to prevent waste and misappropriation. It is the object of the International Bank for Reconstruction and Development to avoid this. In general, to prevent a recurrence of such events as happened after World War I we must not fail to

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*American Experience as a Creditor Nation--Nadler, Madden and Sauvain--Prentice Hall Inc., New York, 1937

recognize factors such as economic dislocations due to war, trade impediments, capital flight and price fluctuations.

BRETTON WOODS

In 1941 plans were being formed by forty-four nations (for countries see appendix) recommending ways to reduce obstacles to trade, and promote mutually advantageous commercial relations. In 1945, at Bretton Woods, the basis was set for a World Bank and International Monetary Fund* in order to avoid economic disorders, do away with industrial backwardness and underdevelopment, and bring back the world to a normal and salutary financial position. Capital requirements for such an undertaking would be quite beyond the means of private investors or unilateral government action, and so--the World Bank.

At Bretton Woods the various nations realized the interlocking nature of their economic interests and that cooperation regarding financial matters would be a "must" for future world peace. Agreements worked out would not commit any govern-

*The International Monetary Fund is expected to provide stability in values of currencies, thus facilitating commerce among nations. Indirectly it is to provide credit for trade by making foreign exchange available to central banks or other governmental agencies. It is to pertain to balancing of international transactions rather than with direct assistance to exporters or importers. Its main purposes are as follows:

1. Promote international monetary cooperation through a permanent institution providing the machinery for consultation.

ment, and each nation's participation in the Bank and Fund would be entirely voluntary. The conference agreed on the problems needing attention, the measures to be taken, and forms of international cooperation and organization needed. (In this thesis we shall concern ourselves only with that part of the conference pertaining to the Bank.)

It was agreed that the expansion of international investment is essential to provide a portion of the capital necessary for reconstruction and development. The Conference further agreed that the nations should cooperate to increase the volume of foreign investments made through normal business channels. It is especially important that the nations should cooperate to share the risks of such foreign investment. Also agreed upon at the Conference were the powers and resources to be had by the Bank, the obligations which member countries would have to assume and a draft of the Articles of Agreement.

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2. Facilitate the expansion and balanced growth of international trade, and so contribute to high levels of employment.
3. Further exchange stability, maintain orderly exchange arrangements among members and avoid competitive exchange depreciation.
4. Promote a multilateral system of payments among nations and eliminate foreign exchange restrictions.
5. Provide resources for correction of maladjustments in balance of payments.

Finally, the Conference agreed that the nations should establish a permanent international body to be called The International Bank for Reconstruction and Development.

PURPOSES OF THE BANK

The prime purpose of the World Bank is to promote the international flow of long-term capital. It is to aid in restoring war disrupted economies and in the development and reconversion of productive facilities and resources in devastated European countries. The Bank will try to set a reasonable pattern of interest rates and other conditions pertinent to international loans in order that abuses such as occurred in the financial economy after World War I be avoided. It will help to promote private foreign investments and extend credit only where it will be productive, a factor essential to the progress of the Bank. Indirectly, it also hopes to have a salutary effect on the terms and conditions of world wide investments. As a whole it is to aid in the development of a balanced expansion of world trade and the maintenance of equilibrium in the international accounts of member countries thus assisting in raising productivity, standards of living and employment.

EARLY DEVELOPMENT

In 1945 the Bretton Woods Agreement was approved by the Congress of the United States, thus authorizing our participation in the World Bank. This act extended the lending authority of

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6. Shorten the duration and lessen the degree of disequilibrium in balances of payments among nations.

the Export-Import Bank* by $2.8 billion so that it could temporarily aid in the task of financing the reconstruction and development projects that the World Bank will take over eventually. (The experience of the Export-Import Bank in the latter part of 1946 regarding this type of financing suggests that several months to a year must elapse between the conclusion of negotiating for a credit and the full utilization of credits. Thus the World Bank's loans, if made in 1946, would not begin to materialize in the form of substantial exports until mid or late 1947.)

The President of the United States was authorized by our Congress to accept membership in the Bank, and in behalf of the United States to assume the obligations in the Articles of Agreement. The Secretary of the Treasury was at the same time authorized to meet our subscribed capital call by the payment of $3,175,000,000. The President with the advice and consent of the Senate was to appoint a United States Governor, Executive Director and alternates. The various other member countries were to do likewise. An Advisory Council was also to be

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*The Export-Import Bank is an independent agency of the United States Government established in July 1934. It is authorized to make loans, to discount and rediscount guarantee notes, drafts, and bills of exchange, and to aid generally in the financing and facilitating of exports, imports and the exchange of commodities between the United States and any foreign country or agency.

created made up of the Secretaries of the Treasury, State and Commerce, Chairman of the Board of Governors of the Federal Reserve System, and Chairman of the Board of Directors of the Export-Import Bank to act for the United States in matters as to:

1. Assenting to sale of debentures in the United States where United States government approval required.
2. Giving policy guidance to the Bank and Fund.
3. Coordinating participation of United States in international financial institutions with foreign financial operations of the United States agencies.
4. Giving reports periodically regarding the Bank and International Monetary Fund.

Congress also provided certain rights and immunities to the Bank as regards suing and being sued.

By the end of December 1945 many other countries enacted legislation and went through procedures similar to those of the United States, and the Articles of Agreement pertaining to the Bank (and Fund) were put into effect.

Chapter II

MANAGEMENT AND OPERATIONS

At first membership in the Bank is to be open only to those countries that participated in the Bretton Woods Conference and are members of the International Monetary Fund. Other countries may become members on terms laid down by the Bank after they have been admitted as members of the Fund. A country's membership in the Bank is automatically withdrawn once it ceases to be a member of the Fund unless it is retained by a three-quarters majority of total voting power. The reason for this interlocking membership is that both these institutions are formulated to take care of closely affiliated problems. A country's membership in the Fund will help towards the removal of exchange restrictions and will aid in maintaining greater stability of its currency. The maintenance of these conditions is quite essential to international long-term investments, particularly in the minimizing of risks. By this requirement the Bank is protected by being assured of more reasonable stability of a borrowing country's currency and it is furthermore believed that participation in the World Bank should be permitted only to those nations that have shown they are willing to cooperate in the betterment of fundamental world trade conditions.

It has been recently proposed that the World Bank and International Monetary Fund be merged. In view of the fact that the two institutions are in a sense interdependent, such a merger might strengthen the whole problem of international

financing to a considerable degree by virtue of the fact that the Bank would completely supervise negotiations among nations and so guide a stabilization of currencies by better coordination of activities.

If a member does not fulfill its obligations it may first be declared ineligible to use the resources of the Bank and if its failure continues it may be required to withdraw. Any member can withdraw by giving written notice when its accounts are settled by agreement with the Bank or by some formular which has been worked out for it. Obligations to the withdrawing countries must be settled in its currency unless otherwise agreed. The withdrawing country, however, will not be relieved of its share of the obligations assumed while it was a member.

ORGANIZATION AND CAPITAL

The Bank is under the management of a Board of Governors composed of one governor from each member country. This Board may delegate its powers, with few exceptions, to the Executive Directors regarding major economic and political factors. Each member of the Board has 250 votes plus one vote for each share of stock subscribed irrespective of the extent to which calls have been made for payment on subscriptions. On the basis of the quotas drawn up at the Bretton Woods Conference, the United States would have 32,000 votes out of 100,750, or 31.4 percent of the total; the United Kingdom, 13 percent; Russia, 12 percent; China 6 percent; and France, 4.6 percent.

The quotas or the amount of capital stock to be subscribed to the Bank by the various member countries has been determined by technical experts. It depends on the ability of a country to provide capital and the benefits it might expect to secure. The subscriptions of each country should be the sum of four percent of its national income in 1940 and six percent of its average annual foreign trade from 1934 to 1938, with adjustments up or down by as much as 20 percent to meet special circumstances. The minimum amount of a member's subscription is set at the amount of that members quota in the Monetary Fund.

Under the Board of Governors, and responsible for the conduct of the general operations of the Bank, is a board of twelve Executive Directors. Five of these Directors are appointed by the five members having the largest number of shares, and seven are elected by the other members of the Bank. Election of these seven Directors thus gives special consideration to small countries whose votes might otherwise be ineffective. As new countries become members, the number of Executive Directors may be increased by a four-fifths majority vote taken by the Board of Governors. The Executive Directors select a President for the Bank, while the Board of Governors select an Advisory Council of seven members composed of representatives from banking, commercial, industrial, labor and farm interests. The principle office of the Bank is in Washington, D. C. since the United States has made the largest capital subscription. The Board of Governors also has the power to decide what part of the net income, if any, to distribute to shareholders in

proportion to their shares. When the Bank does distribute any part of its net income it must first pay up to two percent to each member in its own currency on the average amount of the loans outstanding which the Bank has made directly out of currency subscribed by that member for the Bank's own loan fund. The two percent payment is non-cumulative. Remaining net income must be distributed in proportion to subscriptions and in the currency of the subscribing member.

The total capital subscriptions to the Bank are of special significance since loans made by the Bank, whether out of its own resources or out of borrowed funds, plus the guarantees of the Bank may not go over its unimpaired subscribed capital, reserves, and unimpaired surplus. As the Bank's own funds from which it may make loans are equal to only one-fifth of the subscribed capital of the Bank, it is clear that loans out of borrowed funds or guarantees of loans made to private investors will bulk large in the Bank's operations. The amount subscribed to the Bank by any member establishes that member's relative share in the ultimate risks of the Bank's operations, but does not measure the ability of the Bank to make or guarantee loans in the currency of that country. For example, in the case of the dollar, in addition to the United States subscription, the Bank, with the approval of the United States, may borrow funds in this country to make dollar loans, or may guarantee foreign issues floated in this country.

The authorized capital of the Bank is $10,000,000,000, but the total amount to be subscribed to the Bank by the present members is $7,670,000,000 as compared to the $9,100,000,000, allocated to the countries represented at the Bretton Woods Conference. The main countries that have not joined are Russia, Australia--others are New Zealand, Venezuela, Liberia, Haiti and Columbia.

The first two percent of members' subscriptions has already been paid in gold or dollars plus an additional eight percent in the local currency of each member. By May 1947 the Bank intends to call the second ten percent of its capital payable in the currency of the member. The remaining 80 percent of the Bank's capital will be held as a surety fund or an uncalled reserve to back the Bank's guarantees. No call will be made on a member Government for any part of the surety fund unless there is a default on a guaranteed loan and if the Bank can't meet its obligations from reserves accumulated from commission charges.

<u>Investing and Marketing Securities</u>

The Bank has already invested the first two percent of its paid-in capitla (about $150 million) in short-term obligations of the United States Treasury. By May it will have about $720 million of the United States funds, $80 million of Canadian and other funds available for use in loan operations, and $800 million in currencies not available for current loans but usable for administrative expenditures.

To replenish its working capital balances the Bank is

expected to sell its securities in European markets but until such markets strengthen their exchange positions and balances of payments, it will have to look mainly to the United States and Canada as outlets for investment. Other countries will not be in a position to export capital. The large resources in the form of paid-in and callable subscriptions of the Bank itself will be the basis for investors confidence in its obligations. Most of the securities will have to be sold to institutional investors as these will probably be the only ones able to absorb the Bank's bonds. However, there has been the question of eligibility.

Under the Banking Act of 1935, the limitation on the proportion of any one issue that a National Bank could buy was removed, and a single limitation that the securities "of any one obligor or maker" could not be bought to an amount in excess of 10 percent of its capital and unimpaired surplus was imposed.

Thus, in most states, legislative action will be necessary before the Bank's securities can legally be purchased by insurance companies, which are state chartered, or savings banks, or by trustees who are limited to investments which are legal for savings banks. Measures have been taken by the United States authorities and by representatives of institutional investors looking toward the introduction of the requisite legislation to permit such purchases. To date the National Advisory Council has recommended legalizing the Bank's issues for investment by insurance companies in the District of

Columbia. In New York, the Bank's securities have been legalized for Savings Banks which hold about 62 percent of the total amount of savings bank assets of $17 billion in the United States, and also for Insurance Companies.

Insurance Companies are the largest investors with assets aggregating $44 billion, and when legislation is passed in all states enabling them to buy World Bank securities they will be a major market. The Bank may also sell its bonds to commercial banks which are not generally governed by State statutes in their investments. Commercial Banks which are members of the Federal Reserve System are permitted to purchase the bonds of any one issuer in an amount not to exceed 10 percent of their capital and surplus. It is estimated that on this basis these banks should buy a maximum of $600,000,000 of Bank bonds; however, they will have to be in short term obligations.

While trust funds are subject in some states to the same laws that affect savings banks this is not so general as to preclude their present participation in the Bank's offerings to a substantial extent. It is well known that trustees have been experiencing difficulty in finding an outlet for their funds and much of them are now held in cash. Business corporations will be limited to short-term issues because of the apparent penchant of corporate management for an extreme degree of liquidity. Investment Trusts will possibly enter the market for these securities but these companies like to switch their holdings frequently and the amount of their total cash and deposits is not large when measured by the amount of bonds which

the Bank will be offering to the market. As far as individuals go, there may be hesitation at first since there is a tendency to view the World Bank's issues as foreign securities.

VIEWPOINTS REGARDING DISTRIBUTION

The Directors of the Bank want a wide range of distribution of obligations among all classes of investors and therefore will probably not select the distribution facilities of any particular segement of the investment industry but will employ in their offerings those methods most conducive to public interest. Competition of the World Bank with private sources of capital will be avoided and it is expected that the offering of debentures will be the principle marketing operation for the forseeable future, as they are an unconditional promise of interest and principal for a definite stated period, whereas the guaranteed bonds are not. Underwriting probably will not be necessary as there will undoubtedly always be a market for the Bank's issues, and also because it would appear to be an act of excessive condescension involving unnecessary expense for an institution of the dimensions of the International Bank to enlist the more limited resources of private banking institutions in this way. The banking industry, however, will be significant in distributing and selling.

The use of bankers and dealers as agents of the World Bank's securities on an agency basis has received favorable comment especially commercial banks as they would give wide distribution because of their correspondent bank relationships and

experience with state municipal bonds and of semi-government obligations. In distributing its issues the Bank would give public notice of its financing and use a policy of more or less, "first come-first serve" procedure.

The "tap offering"* method used in England for selling national issues has also been considered as a good way of reaching the public, but its usefullness depends on how quickly the issuer needs funds. The Bank could use this kind of offering almost as a continuous process while concurrently raising funds for its additional needs by the specific offering of individual issues. The method is economical, gives the Bank direct contact with the investors, and keeps the number of different issues at a minimum to make for more liquidity.

Placing bonds with investors and the holding of them over long periods will be helped by the relative stability of the market for the Bank's bonds. On the other hand, stabilization operations through market purchases and sales of bonds might also be needed. The spread of the price disparities between the different issues will be reduced by professional arbitrage or hedging. The bonds will be registered with the Security Exchange Commission and will be listed on the major exchanges. Maturities will range from ten to twenty-five years subject to amortization in the case of the longer ones. The Bank favors up to ten years.

*Tap offering--method of selling securities whereby the investor comes to the banking house rather than the house trying to sell the issues directly.

LENDING OPERATIONS

The loans and guarantees shall not go over the amount of the Bank's unimpaired subscribed capital, reserve, and surplus ($7.7 billion). In defining the conditions and terms of the loan the Bank must give special attention to relieving the financial burden and hastening the reconstruction and restoration of countries devastated by enemy action. Development and reconstruction projects should receive equal consideration. The Bank will deal with member countries only through their treasuries, central banks, stabilization funds or other such agencies through whom it may make loans to private enterprises or political subdivisions. The loans granted will not provide working capital to the borrower but will represent long term investments by them in fixed assets which cannot be readily converted into cash as the loan installments fall due. The Bank is permitted to finance only a part of the project in question. The borrower must take care of all costs incurred domestically. The Charter takes it for granted that the borrowing country will always be able to raise the domestic share of the cost through its own capital market. The portion of the Bank's share in the total investment will be a factor in determining the amount of control the Bank's management will consider necessary to safeguard the loan. If the Bank's contribution is relatively large it will have to supervise the operations during the various stages in the development of a project. The nature of its supervision is:

1. Preliminary work--The Bank will check on the

financial conditions and nature of the project before the loan is made.

2. Construction phase--To facilitate construction the Bank will honor drafts on the borrower's loan account in accordance with charter provisions.

3. Operating stage--The Bank is in a less favorable position during this stage as the Charter is not very clear on this point. It might inspect and audit the books or check on the management.

The Bank can help in financing a project only if it is sure the borrower would not otherwise be able to obtain the loan on reasonable terms because of its size, and the financial position of the borrower or guarantor is such that he can meet his obligation. A special committee makes a thorough study of the country seeking the loan and presents its findings to the Directors who decide what action should be taken. If the loan is not made directly to a member government it must be fully guaranteed either by the member government, by the Central Bank or some other agency acceptable to the Bank.

The Bank has to date received formal loan applications or letters of interest regarding loans from Chile, Denmark, France, Poland, The Netherlands, Czechoslovakia, Luxemborg, and Iran. The requests are for reconstruction and development projects, and for financing material and equipment to be secured abroad. They are not to finance labor and local costs.

The maturities of these loans under consideration range from ten to twenty-five years. As yet loans have been

approved for only Denmark and France, but several other applications are in the process of being investigated and will probably be approved in the near future. A number of applications have been brought up to the Export-Import Bank, but these will all be presently taken over by the World Bank. In passing on the various loans in question the Executive Directors are considering not only details of the project but how the loan will affect broad trade and financial and investment policies of the borrower, since these might affect the carrying out of the project and the prospects of repayment.

There are three ways in which the Bank may make or facilitate loans:

1. Direct loans from its own funds corresponding to its unimpaired paid-up capital and surplus:
2. Loans made out of funds borrowed from private investors in member countries:
3. Guarantee either in whole or in part loans made by private investors via the usual channels of investment:

1. LOANS FROM BANK'S OWN FUNDS (Main way of financing)

Direct loans are made only when they cannot be floated via ordinary channels at a reasonable rate. Thus the Bank will not be a danger but a stimulus to private investment as it will take away the danger of unsafety from the private investor. These direct loans can be made from the Bank's funds derived from the 20 percent of capital subscriptions which have been called for this purpose. Two percent of this amount has been

paid in gold as an initial payment on member subscriptions and can be used for any purpose the Bank may decide on. The remaining 18 percent, however, paid in the currency of individual members, can be loaned or exchanged by other currencies only with the approval of the subscribing country. In this way member governments have a voice in deciding upon the projects to be financed with this currency or whether or not it is to be exchanged for other currency.

The payment of interest and principal on loans made from these funds must be made in the currencies lent unless otherwise agreed. The country's approval is required also in relending or exchanging currencies received by the Bank in payments on the principal of their direct loans so members are able to control the use of the currencies paid into the Bank for its direct operations. If the eighty percent of the Bank's capital is insufficient to meet losses or repay its obligations it can use any currency which it has on hand, as for example, the receipts which the Bank gets in payment by borrowers of interest and commissions on loans and guarantees.

A subscribing member can block the use of its currency outside its borders by refusing the Bank permission to convert its currency into the currency of another country. This may limit the borrowers' use of that currency to purchases in that country, a factor which would not be too desirable. Repayments on all direct loans must be equivalent in value to the contractual payment at the time the loan was first made. If a member's currency depreciates, the member must provide the Bank with

enough additional currency to maintain the original gold value of its currency held by the Bank and derived from the 20 percent portion of capital.

Bankers and investors favor the making of loans from the World Bank's capital fund in preference to borrowing from private investors or guaranteeing loans of private investors. Their stand can be substantiated by the following factors:

1. The Bank will be able to finance directly a number of small loans from the proceeds of one debenture issue because placement of many small issues of individual borrowers, even though guaranteed by the Bank, would be difficult.
2. Issues of debentures would give the Bank better control of its liabilities. For example, the Bank would find it easier to control the maturity structure if its commitments take the form of debentures rather than guarantees.
3. The Bank would have better control of the use which the borrower makes of his funds.
4. A homogeneous debt would avoid the danger that individual issues might sell at different prices. (There is a strong possibility that this might happen in the case of guaranteed issues.)
5. The Bank would find it easier to transfer the extension of the period allowed for payment on loans held in its own portfolio than to transfer the extension of the period allowed on securities held

in the market.

6. If the loan is in default, the Bank will not be faced with the decision of whether to take the whole issue from the market or continue service under guarantee terms.

2. DIRECT LOANS MADE FROM BANK'S BORROWED FUNDS

The Bank can borrow funds to make direct loans as long as it secures the consent of the members in whose market the funds are raised. If the direct loan is to be made in the currency of a member country other than the member where the funds were raised, the approval of that member is also required. (Example: If Spain wants a loan in the form of French francs but funds of the Bank available for loans happen to be raised in England (pounds sterling) it would be necessary for the Bank to secure the approval of both France and England in order to convert the pounds into francs and so permit the loan to Spain.) The Bank may convert currencies so raised and the proceeds of the service of the loan into gold or any currency it may need after approval has been given. Thus the use of the proceeds of these loans is free from the control of member countries where they are raised or of others, and the Bank retains complete authority over the use of such funds. To prevent the Bank from taking an exchange position and in order to protect member countries, the Bank cannot at any time have payments due it in any one currency on account of these loans over the amount of its outstanding borrowings payable in that currency. For example, the Bank cannot require payments in dollars of amounts due it on loans made from

funds raised in other countries except to the extent that dollars were borrowed by the Bank in the United States. If the Bank were to demand such payment made in dollars it might produce a strain on the dollar resources of other member countries and pressure on their dollar exchange rates.

A. Currencies on Direct Loans

The Bank will lend member countries currencies to finance the borrower's needs outside its borders. The borrowers themselves will be expected to raise their domestic currency needed to meet local expenditures and only in special cases where the borrowing country cannot raise its local currency needs on reasonable terms will the Bank provide a borrower with the borrower's own currency.

If a particular project gives rise indirectly for foreign exchange by the member in whose territory the project is located, the Bank can provide this as part of the loan in an amount not to exceed the local expenditures of the borrower. Only the particular currencies required are issued to the borrower, that is, for example, dollars will not be given unless the borrower needs dollars to spend in the United States. It is not permissible to acquire currencies from the Bank to sell them in the exchange market for other currencies. To finance purchases in other countries the currency of a particular country held by the Bank must be converted into the other currencies by the Bank. It is expected that most of the currencies of the Bank will be available for free exchange by the Bank for any currency that may be needed.

The Bank is restricted, however, to exchange currencies subscribed by member governments for the Bank's own loan fund for other currencies. Currencies secured in this manner cannot be exchanged or loaned without the approval of the subscribing countries. For example, if someone wishes to borrow francs to buy goods in France and if France does not approve the use of its francs subscribed to the Bank, or all twenty percent of the French subscription has been loaned it would be necessary for the Bank to use francs secured from interest, commission charges, or gold, or sell currency not acquired by subscription for francs, or get permission from other countries to exchange some of their currency subscribed to the Bank for francs. If all these methods fail to supply the needed francs the borrower would have to make his purchase of goods in another country.

From the start the Bank will have gold available for purchase of any currency and will acquire more free currency as time goes on through interest payments and charges, and from borrowings from private investors. Thus it will be unlikely that borrowers will have to be redirected to other countries as regards their proposed purchases.

If a country has agreed to use its own currency to finance another member's purchases and then finds itself short of foreign exchange it can get the aid of the Bank as the Bank does have gold or foreign exchange available for its unrestricted use.

<u>B. Charges and Schedule of Repayment on Direct Loans</u>

The Bank decides on the interest rate, amortization

payments, maturity and the commission to be charged on direct loans made from funds raised in the market of a member for the direct loans and guarantees. (The commission is actually interest charged for guaranteeing loans and is payable periodically on the amount of the loans outstanding.) The repayment schedule and charges will depend on the project being financed. In the Agreement it is provided that the commission charged by the Bank on direct loans made from funds raised by the Bank in member countries, as distinguished from its own fund, shall be one to one and one-half per cent per year for the first ten years of the Bank's operations. The cost to the borrower would be the same as what he would have to pay on a loan guaranteed by the Bank. The outstanding unpaid portion of a loan will be the basis for the commission charge. If after ten years the Bank's accumulated reserves or earnings are good the commission rate may be lowered, which reduction may apply to loans already made or to future loans.

If a borrower runs into a situation of exchange rigidity and is unable to meet its obligations due to the Bank on direct loans in the currencies in which payment is due, the Bank may relax the conditions of payment. It may accept payment in the currency of the member in question for a period not exceeding three years. Terms of amortization may be altered or the life of the loan may be extended. The Bank thus has flexibility and can make repayment of its direct loans less burdensome for its borrowers in time of need.

3. GUARANTEES

The third method by which the Bank will promote international investment is by guaranteeing loans made by private investors by way of the usual investment channels. These loans guaranteed by the Bank must meet the same conditions applicable to all loans. Before the Bank can guarantee a loan it must secure the approval of the member in whose markets the funds are raised and the member in whose currency the loan is made. It is further stipulated that funds thus borrowed can be exchanged by the borrowers for other member's currency freely through the facilities of the Bank. A member country where such a loan is raised cannot restrict its use to its own country. A member can approve or disapprove the Bank's guaranteeing a loan, but after approval is passed the borrower can use the proceeds of the loan to finance purchases wherever he likes.

Borrowers favor the Bank's guaranteeing issues floated directly by borrowers. They maintain that the borrower is interested in keeping good credit and will exert himself more on behalf of private creditors than for foreign governments. In this way the issue might be better security against defaults. The guarantee is a two signature paper while the debenture is a one signature affair. The guaranteed issue gives the borrower opportunity to bring his name before the market and establish a credit standing and eventually he may be able to borrow without guarantees. A strong borrower might be able to get a lower interest rate than if he were to get loans direct from the bank; weaker borrowers might get better conditions from the Bank than from the market.

SPECIAL RESERVES

To meet liabilities incurred by borrowings or guarantees the Bank will have a special reserve made up of all payments of commissions on either direct loans made by the Bank or on loans guaranteed by the Bank. If we were to have a world-wide slump the Special Reserve and other dollar cash funds of the Bank should be big enough to meet interest and amortization in dollar obligations for a number of years. If depressing conditions persist the Bank can call for the 80 percent of its subscribed capital not originally paid in the currency needed to meet its obligations. The United States share is $2.5 billion so at a fully-loaned up position claims against the United States government would amount to almost one-half of the Bank's total obligations. Besides this, the Bank holds claims against other governments to the extent of three times the remaining obligations. The Bank is further strengthened by the International Monetary Fund, the International Trade Organization and the good records of the major members of the Bank.

The Monetary Fund is of special significance to the Bank as the two institutions have much in common and can supplement each other. The Fund is set up to provide stability in values of currencies, thus facilitating commerce among nations. It is to provide credit for trade indirectly by making foreign exchange available to central banks or other governmental agencies. It pertains to balancing of international transactions rather than to direct assistance to exporters or importers.

The Bank, on the other hand, is concerned with long

term credit for reconstruction and development of resources of countries where industrialization has lagged. These credits will be reflected in immediate transactions in capital goods and will lay the foundation for a permanent expansion of world trade among nations which as a result of this aid will be better able to produce and consume.

In supplementing each other, the operations of the Fund will reduce exchange risks involved in international investment and those of the Bank willassist in developing the economies of nations so as to make excessive fluctuations in exchange rates less likely.

Chapter III

Accomplishments of Meetings

Savannah, March 8-15, 1946, Inaugural Meeting of the Board of Governors

The Savannah meeting shows the interest of all the countries that the Bank should work, that it should shy away from petty advantages and short-sighted policies and work for the benefit of mankind. It was held to implement the fundamental agreements laid down in the "economic magna charta" at Bretton Woods, and established the basic operating structure under which the Bank (and Fund) would function. The Board of Governors passed resolutions pertaining to the following:

Interim Administrative Arrangements

a. Making of arrangements for the first meeting of the Executive Directors.

b. Establishment of an account with the Federal Reserve Bank of New York.

c. United States Government to transfer all funds it needed for meeting administrative expenses of the Bank to the account set up in the Federal Reserve Bank of New York.

d. Authorization to expend up to $200,000 for salaries and other expenses.

Fiscal Year and Annual Meeting of the Governors.

a. Fiscal year to begin on July 1

b. Annual meeting of Board of Governors to be held in September, 1946.

Meeting of Directors

a. Executive Directors to take office May 1, 1946

b. Next election to take place September, 1948 at the annual meeting of the Board of Governors.

Selection of Advisory Council by Board of Governors.

Interpretation of Articles of Agreement regarding position of Executive Directors for India.

Establishing Procedures Committee for consultation purposes.

Acceptance of membership of Schedule A Countries (see appendix)

Exemption of National Taxes on salaries and allowances.

The Governors approved membership applications for Lebanon, Italy, Syria and Turkey and established for Denmark the minimum number of shares of capital stock of the Bank to be subscribed as having a par value of $65 million. It also referred to the Executive Directors the matter of establishing liason between the Bank and the Social Council of the United Nations to discuss arrangements for collaboration.

Committee reports were received and approved regarding membership, site, functions and remunerations, by-laws, procedure for election of Executive Directors, and appointment of an Executive Director by India. Regarding the last of these, the question was how to protect* "the position of India, now entitled to appoint an Executive Director, if a Schedule A country with a larger quota than India should become a member prior to the second election of Executive Directors."

*International Bank for Reconstruction and Development, Washington, D.C., May, 1946

The matter was settled by interpreting Article V of the Articles of Agreement to mean *(1) "that any member having one of the five largest subscriptions at the date of a regular election, or at any date between regular elections, shall be entitled to appoint an Executive Director, or shall hold office until the next regular election. This interpretation would mean that a subsequently admitted member could appoint a director if it has one of the five largest quotas."

As mentioned previously the prime object of the meeting was to bring about agreement regarding the procedures to be used in order that the functions of the Bank be carried out with the utmost advantage and benefit to the world.

<u>Washington, September 1946, 1st Annual Meeting of the Board of Governors</u>

The key note of this meeting *(2) "is the speedy activation of the Bank (and Fund) as effective instruments in a world sorely in need of their services."

In this meeting the progress of the Bank during its three months of functioning was reviewed concerning its staff personnel, development of its working procedures and relationships, and its policy and operational questions. Here it was felt that the ground for the future tasks of reconstruction and development was at last established and that if *(3) "we build skill-

*(1) International Bank for Reconstruction & Development; Washington, D.C., May 1946.

*(2) John W. Snyder, Opening Address to Board of Governors

*(3) First Annual Report by Executive Directors, Washington, September 27, 1946

fully and well an international organization to perform those tasks the Bank will be able to contribute, as the member governments of the Bank intended it should to the structure of a secure peace."

Also brought out in this meeting was the need for close cooperation with other International Organizations--the International Monetary Fund, the Economic & Social Council of the United Nations, and other specialized agencies of the United Nations, since they all face problems of mutual concern. The Bank has had representatives at meetings of the Food and Agriculture Organization, and Bank representatives attended meetings in London of the Sub-Commission of the Economic & Social Council on Economic Reconstruction of devasted areas. Cooperation in the economic world is a prerequisite to the peace and prosperity of all nations and is certainly important to the success of the World Bank.

Resolutions were passed relating to the terms and conditions on which Syria, Lebanon, Italy, and Turkey would be admitted to membership in the Bank. It was also agreed that the capital subscription of France be increased by 750 shares of the capital stock of the Bank at the subscription price of $100,000 per share. Paraguay's capital stock was also increased from eight shares to fourteen.

Committee reports were submitted on procedures, financial conditions (see appendix for balance sheet) and subscription revisions, but aside from this there were no major drastic changes to be made or reported.

Total assets of the Bank as of August 31, 1946 were $385,157,513. Of this amount $14,072,258.62 was in gold of which $4,676,499.98 was held by the Bank of England and $9,395,958 was held by the Federal Reserve Bank of New York. Total deposits were $227,729,955.32. Calls on subscriptions to capital stock outstanding as of August 24, 1946, amounted to $143,353,116.30 which includes balances of $9,613,116.30 on the 2 percent call payable on or before August 24, 1946 and of $133,740,000 on the 3 percent call payable on or before November 25, 1946.

The Bank's liabilities totaling $1,939,676.77 include accounts payable of $73,948.35, a reserve of $15,728.42 for estimated liability for income taxes on salaries paid through August 31, 1946, and deferred credits of $1,850,000; the last item representing the advance payments by Chile and Costa Rica of the five percent stock subscription call which was not actually made until after August 1946.

The two percent call of $153,400,000 and the three percent call of $230,100,000 make up the capital stock of $383,500,000. Up until August 31, 1946 the total operating expenses amounted to $282,163.13 which is the Bank's deficit.

Regarding capital calls it was decided that the payment of one-half percent of the subscriptions of China, Czechoslovakia, Denmark, Greece, Norway, Poland, Yugoslavia be postponed for a period of five years according to Article II which provides for postponement of payment in the case of a member whose main territory suffered from enemy action during the war. Such postponements amounted to $5,165,000.

The executive Directors are also considering a postponement of the remaining payment of one and one-half percent on the subscriptions of Czechoslovakia and Yugoslavia as these countries are unable to make the payment of two percent of their subscription in gold or United States dollars since they have not recovered full possession of their gold reserves.

Chapter IV

Critical Issues and Problems

Despite the progress made by the World Bank, it has been confronted with many setbacks and problems which have retarded its growth. Some of these matters it has solved, while others, are still major issues to be coped with before the Bank can engage in its operations successfully. A good portion of its trouble and difficulty lies in getting organized and in its inherent structure.

Last May when the market was bullish, Wall Street was eagerly waiting to accept the Bank's securities which were supposed to be practically gilt-edged affairs. Since that time both the Bank and the financial district have hit an acid note. The bull market blew over, international relations (on which the credit of Bank largely rests) grew from bad to worse, and the Bank remained silent as to any of its plans or future actions.

Securities

It was predicted in last October by J. W. Beyen, Loan Director of the Bank, that the Bank would pay one-fourth to one-half percent above the United States Treasury rate on comparable securities, but later the Bank officially denied this and as yet has not come to any decision as to what it will pay.

The sale of the Bank's securities, which were to come out before the end of last year, has still not reached the market. The questions here are:

1. What selling method should be used?

   A. Sale by an underwriting group which would buy

securities at a fixed price from the Bank and re-offer them at their own risk to the public.

B. Sale by a selling group or agency which would offer securities to the public on a commission basis at the Bank's risk.

C. Sale through a fiscal agent who would just put the securities on the counter and let the public come and get them.

2. Who will buy?

The United States is of course expected to offer the main market at first, but even here legislation must be passed before our Banks can buy. New York has approved the Bank's securities for savings banks, but in view of the Bank's new difficulties in finding a President, and the delays of the Bank in putting its securities on the market, it is considering repealing this law. No State has approved the World Bank's securities for Insurance Companies (see footnote 1); commercial banks need a special ruling before they can go ahead, while the Federal Reserve Banks have a definite limitation as to the amount they may take. Wisconsin has gone so far as to entirely ban investments of that State in World Bank Securities.

It is felt that this particular problem might be partly remedied by an improvement in the Bank's public relations system and being more frank regarding its plans. It must be

(1) As of April 1947 New York has passed legislation approving the World Bank's securities for Insurance Companies.

recognized that the Bank's obligations are new and won't fit into the traditional divisions of securities markets. It certainly will not look very good for the Bank if the new issue starts selling on the market at a discount. It would be all well and good if the Bank had a way of supporting the market in times of stress as the Federal Reserve Bank supports United States obligations, but this is a rather touchy point as the difference between supporting the market (legitimate way of monetary control) and rigging the market (illegal support of market) is a fine one.

USE OF FUNDS

The Bank has also been faced with a number of unsound proposals that it be the main source of funds for ambitious projects of the United Nations--that it take over the work of UNRRA, and finance the big international program of the Food and Agricultural Organization. Its decision in this regard may antagonize prospective bond buyers and endanger further the Bank's progress. However, it must be made clear here that the guarantee funds are not to encourage lenient lending but to give the basis for favorable interest rates for bond issues and borrowers. These people or agencies who are looking for a source to finance lucrative projects designed to furnish quick relief to particular groups growing but still weak structure of the Bank.

TARIFF POLICY

The uncertainty of our (United States) tariff policy is another factor of major importance to the Bank. Up until 1948 the President of the United States has the power to cut our tariff

75 percent below the level prevailing in January 1930. The extent to which the President will use this power will depend on United States politics and will not be determined until after the April conference in Geneva to establish an Internation Trade Organization. If the United States continues to export two times its imports both the Bank and the International Fund are bound to fail, as Europe will be lacking sufficient funds to maintain a stable economy and will be too much of a burden on both the Bank and the Fund.

Finding a New Executive

All of the above factors lead up to the cause of the Bank's difficulties encountered in finding a President. The President's position is nominal and of course the mere appointment of a President won't correct the situation. To make the appointment meaningful the President must be given sufficient authority regarding carrying out the operations of the Bank, whereas at present, this office is subordinated to the Board of Governors and Executive Directors. Such a revision as to the duties of the President would involve revision of the Bretton Woods Agreements which will further stymie the Bank.

Eugene Myers' resignation has been attributed to the unstable price and production situation in the United States which has forestalled plans for extending credits for goods abroad, the prospective lack of future United States support indicated by the indifference of the American public towards the Bank, and the lack of sufficient power regarding carrying out the functions of the Bank.

The whole structure, aims and policies must be re-examined by the Directors due to this grave set back in loss of prestige, weakened confidence of the investors and the popular attitude toward the general international situation. The Bank itself is fundamentally sound, but it seems that it will have to start from scratch in its approach to the investment market in the light of developments as they now stand.

UNIFYING THE BANK AND FUND

One of the latest issues which has arisen is the matter of unifying the World Bank with the International Monetary Fund. In the September meeting of the Board of Governors this was brought up and a committee of the Executive Directors from both the Fund and Bank was created to take up matters of common interest and more or less bridge the two institutions together. It was proposed that the secretaries of the Bank and Fund interchange any documents or information that might be of mutual interest, and representatives of the two attend meetings of concern to both.

In the long run the merging of the Bank and Fund might overcome the weaknesses of both the institutions and insure better prospects of success than if each organization were to work as a separate unit even though it would mean more delays in getting started.

Under a unified program the costs to the United States and other countries would be greatly reduced as it is believed the Bank's capital alone would be sufficient for stabilizing loans as well as for long-term credits for recon-

struction and development projects. There would be greater emphasis upon placing safeguards against loss. The Board of Governors of the Bank would be able to negotiate stabilization agreements with each country as conditions warranted, with the broad aspect of eventually attaining a multi-lateral system of international payments free of exchange restrictions.

The terms on which a country can borrow from the Fund are fairly lenient and it is possible for a nation to borrow so much short-term money from the Fund that it would endanger the soundness of its long-term obligations to the Bank. The Fund makes no provision to avoid the use of our dollars by countries which are pursuing policies adverse to ours or for reasons to which we are opposed, allows exchange controls for an extended period and permits a ten percent depreciation without its consent plus a further depreciation if there happens to be a "fundamental disequilibrium".

These essential weaknesses of the Fund, the organizational difficulties of the Bank, the accumulation of dollar balances in Europe and the fact that our gold reserves have declined considerably whereas other countries have been increasing their gold reserves because of an inward movement of capital and have gained more gold than the whole United States quota in both the Bank and Fund all seem to point to the desirability of a union to augment the success of the two organizations and dispense with the short-comings and problems now present.

Chapter V

PUBLIC OPINION AND THE BANK

When the Bank was first organized under the Bretton Woods agreement it was received favorably and with great optimism. Unlike the International Fund, the Bank's operations "would have elements of certainty of a voyage on fully Charted seas."* Its methods and practices are more familiar to bankers and business men and more easily understood. In contrast to the liberal provisions for the Fund, the Bank seems to be surrounded by safeguards to reduce the dangers of unwise investment. An example of this is the limitation on loans and guarantees to one hundred percent of subscribed capital funds, the provision for maintaining a close scrutiny of projects and the prospects for repayment, the veto power of member nations on loans in their currencies or borrowings in their markets, and the matter of sharing losses by all member nations in proportion to their capital subscriptions.

There have been objections raised by a few bankers and economists that the Bank might limit the control which private bankers have exercised in the past over international finance. Even though this is true, it in no sense means a restriction of the investment sphere in which bankers would engage. On the contrary, it would expand this sphere by increasing the volume of international investment and would act as a very effective stabilizer and guarantor of the loans it might make. It will

*The Bretton Woods Proposals, Chamber of Commerce of the United States, February, 1945

not be a source of competition for private lenders as the size of the loans which it is to make will be larger than can be met by ordinary means.

Secretary Morgenthau in describing the program of Bretton Woods as regards the Bank said that it represented,"the initial steps through which the nations of the world will be able to help one another in economic development to their mutual advantage and for the enrichment of all."

"The International Bank.....is intended to give economic help to the people of war-torn lands. Only with such help will they be able to buy what we produce. The only good customers are prosperous customers."

Mr. Edward Brown, Chairman of the First National Bank of Chicago, when asked his views on the World Bank expressed his whole hearted approval and said "anything which increases the volume of our exports business is bound to increase the profits of banks. It isn't so much the mere handling of foreign exchange, althoughthere will be more of that than before and more of it handled through banks, but a higher level of prosperity in this country means more loans for the banks, more deposits, more transactions, more business, and more profits."

In the 1945 American Banker's Association report* the following points were advocated as regards the Bank.

*Report of the Committee on Special Activities of the American Bankers' Association and the Committees of the Association of Reserve City Bankers and the Bankers' Association for Foreign Trade, February 5, 1945

1. That the paragraphs in the Bretton Woods Agreement that make membership in the World Bank dependent on membership in the World Fund be eliminated.
2. That the Governors and Directors of the Bank have the responsibility for arranging and negotiating agreements between the various member countries with respect to the stabilization of currencies, removal of exchange controls and general rules of procedure in carrying out monetary policies.
3. That the Bank be authorized to gather information regarding monetary and economic matters as outlined in the Fund.
4. That the lending power of the Bank be extended so that it will be able to make safeguarded loans to help countries in stabilizing their currencies.

The American Banker's Association is definitely in favor of having the Fund and Bank one under highly qualified management and in view of the vast experience of central banks, the American Bankers' Association believes they should be allowed to participate in the management of the World Bank.

With the above provisions the Bank would be able to take care of the essential purposes of the Fund, and its resources alone would be adequate for all operations. The American Bankers' Association furthermore advocates such safeguards as

having the President of the United States (with the approval of the Senate) appoint the United States Governors and Directors of the Bank, a special United States directing committee be organized to aid in making decisions for our government and stabilization of all currencies by the firm stabilization of the United States dollar in relation to gold.

The committees of three major banking organizations*, after having made a study of the Bretton Woods plans, view the monetary Fund as an inflation menace and unless it be merged, with revisions with the Bank it would delay fundamental economic adjustments and would fail to protect the principles and interests of the United States.

The Investment Bankers' Association critizes the Bank as being an organization that contemplates the spreading of low cost money throughout the world with the United States putting up the "lion's share" of the money.

Comments by the National Grange were to the effect that countries furnishing the greater part of the capital should be given majority control.

Winthrop W. Aldrich, Chairman of the Board of the Chase National Bank of New York, brings up the question of the effect upon the international balance of payments of a large volume of

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*Advisory Committee on Special Activities of the American Bankers' Association

Committee of the Association of Reserve City Bankers

Bankers' Association for Foreign Trade

loans granted to foreign borrowers. He believes that capital for domestic reconstruction and development should come from local sources and unless capital exports are kept at a minimum and are limited to projects that yield foreign exchange, debtor nations may turn to the Monetary Fund to meet interest and amortization payments due on foreign borrowings. If this is so, the United States would find itself providing dollars to the Monetary Fund in order to enable borrowing nations to service their dollar debts to the Bank. Mr. Aldrich also questions the relationship of the World Bank to the Export-Import Bank. If both of these institutions function, what will be the total volume of foreign credits which this nation may find itself extending, and finally is it wiser for the United States government to extend long-term dollars loans indirectly through the World Bank on directly by way of its own agencies? Aldrich feels that our government should make foreigh loans through the Export-Import Bank since it has had considerable practice and would perhaps run into fewer difficulties and hasten the entire program of reconstruction.

*"The Bretton Woods proposals are no substitute for the real job of economic reconstruction. They are unrealistic and unnecessarily complex. They are unrealistic in their implied assumption that the creation of credits, the counterpart of the creation of the debt, will , in the absence of appropriate fiscal credit and commercial policies in each member nation, solve the complicated international monetary problems which beset the world. Their technical provisions are needlessly complex, a defect which

*Mr. Aldrich-Address before Executives Club, Chicago, Sept. 1944

stems in part from the fact that more fundamental problems remain unsolved."

Professor Beckhart of Columbia University, disfavors completely the Bretton Woods proposals and suggests that a more effective means of coping with the problem of making loans for reconstruction and development would be by reorganizing the Bank for International Settlements or establishing a similar institution with capital of about $500 million to be paid and owned by central banks. Functions would be a modification of those now assumed by both the Bank and Monetary Fund, i.e., extending stabilization credits, considering credit and monetary policies of mutual interest, and that major credit extension be supplied by existing institutions. The Export-Import Bank would play a big part if this were to be the case.

Further criticism of the Bank is that its capital of ten billion is perhaps larger than essential as many foreign countries now hold large volumes of gold and foreign exchange available for post-war needs and should be able to borrow on their own credit without guarantee.

*"The system of credits based on the quotas of member countries seems unrealistic and impractical as a basis for operations. The quota of a member country may have little relation to its actual credit needs or to its credit-worthiness. By establishing such a formula each country is encouraged to believe that it has a right to credits up to a stipulated amount, and no doubt, most of them will make every effort to get their share regardless

*J. H. Riddle, Address, 1943

of international conditions and the general state of their international accounts. It is difficult to see how the dissipation of substantial amounts of credits could be avoided..........

"The plan agreed upon by the Bretton Woods Conference seems grandiose and over-ambitious. There is no assurance whatever that it would accomplish any lasting good. In view of the difficult problems of the transition period, it seems----that stabilization will have to be undertaken step by step. It would be better to move slowly and surely than to undertake too much...."

The Americans "have piled up a colossal public debt in this country that will burden us for many generations. Every sound instinct and every lesson of history cries out against a continuous piling up of that debt after the war. Is this but the beginning of a long series of new spending and lending programs, not only domestic but also foreign, that will keep the budget unbalanced indefinitely? When do we begin to retrench to protect our own currency? Our first duty to ourselves and to the world is to protect the dollar and keep it strong by putting our own fiscal affairs in order."*

The London Chamber of Commerce in a report issued in December 1944, points out that the Bretton Woods program fails to assume the balancing of accounts among nations in terms of goods and services, thus the balancing in money would not accomplish the declared purpose of an expansion and balanced growth of international trade.

*J. H. Riddle, Address, 1943

Another factor which might be mentioned here is the absence of Russia from the World Bank. She did not seem adverse to having a World Bank when the first preliminary measures were taken and did participate in the Bretton Woods Conference, yet she is not a member. We know the reasons for her absence are various, namely:

1. Struggle over the veto power and United Nations political issues.
2. Non-consumation of a loan from the United States.
3. The Fund's quota would classify the Soviets as a third instead of second in the rank of World Powers.
4. Unwillingness of Russia to give information.
5. Contradiction of Soviet planned economy to the basic psychology of both the Bank and Monetary Fund.

Little has been said about the fact that Russia is not a member and yet we know that the ultimate outcome of the Bank depends upon cooperation among all the nations of the world--especially the major powers. The fact that Russia is not in this international organization broadens the rift between her and other nations of the world in the final establishment of peace which, by circular reasoning, means less chance for continued successful operations of the Bank in the future as a permanent organization.

In spite of the Bank's drawbacks and criticisms these can, no doubt, be ironed out as it can easily be said that the advantages and benefits by far supercede its shortcomings.

1. It will definitely help in achieving stable economies.
2. It will distribute the risk of international lending.
3. The United States may furnish most of the loans that the Bank guarantees, but the risk involved will be only $3 billion as a consequence of our subscription to the Bank.
4. Its set-up will avoid imperialistic lending.
5. International supervision of foreign loans will prevent them from being used as an instrument of political policy.
6. Only one-fifth of the $9.1 billion subscribed can be used directly for loans, the rest in unpaid subscriptions, as a guaranteed fund to meet losses.

The Bank is a cooperative enterprise of governments, and its main concern is with governments; it is not a profit-making institution but one which involves only economic policy.

One of the Bank's big problems, that of finding a competent President and Vice President, has now been solved by the appointment of John McCloy as President, and Eugene Black as Vice President. The manner in which these men carry out the various policies and procedures of the Bank, the competence and conservatism of its over-all management, its freedom from political influence and international cooperation will all be factors working together in determining the future of the International Bank for Reconstruction and Development.

APPENDIX

Comprehensive Abstract

On December 27, 1945 when the Bretton Woods Agreements were signed in Washington on behalf of governments throughout the world, the International Bank for Reconstruction and Development came into existence. Today 42 countries are members of this institution.

The International Bank for Reconstruction and Development, like the International Monetary Fund, recognizes the need for world wide cooperation in monetary and financial matters. It aims at the balanced growth of trade as a means of achieving high levels of employment and rising standards of living, and will be concerned with long-range productive international investment.

Factories, dams, power plants, transportation systems, and public buildings in the countries ravaged by war have been shelled, bombed, and pillaged. Foreign capital will be needed to help replace this wealth. While it is fully recognized that the major portion of the reconstruction burden must be borne by the affected countries themselves, yet for many "seed corn" items of capital equipment they must look to their more fortunate neighbors.

There are also the long-standing needs of undeveloped areas inhabited by more than half of the world's population--particularly the Far East and some of the Latin-American Republics. To uncover and develop their resources, to make possible their full scale participation in maintaining healthy economic and political conditions the world over, will require extensive

investment of foreign capital. Only a few countries have emerged from the war with heavy industries that can produce capital equipment for export. Since exports in substantial volume will depend on the revival of international investment, these countries have a vital interest in any plan that will place international investment on a high plane supported by new standards and safeguards.

The investor will want assurance that he is making a sound, remunerative investment. In providing this assurance, the Bank will function in the following manner: It will determine the soundness of a project for which a loan is sought, particularly with respect to its capacity to enlarge a country's national income; it will secure the guarantee of the government of the country in which the project is to be located; and, finally, will add its own guarantee. The risk of seeing that investors are wholly protected, therefore, will fall not on the investors, nor on any one country, but upon all of the member countries. This is only fair, as all of the countries associated for the purpose of making the Bank possible will derive benefits from an expansion of international investment.

The Bank, under certain conditions, will also make direct loans. Its principal function, however, will be to stimulate private investment. The Bank is not intended to supplant but to supplement the private capital market. Loans will be made, as they have been in the past, by private lenders who see an opportunity to make an advantageous investment in a foreign country. The Bank will support and encourage these loans through

the usual investment channels. In order that investors may always be assured that their own risks are reduced to a minimum, the total obligations assumed by the Bank may not exceed its unimpaired capital and other reserves. Since all member countries will share the risks involved in expanding international investment, all must be in a position to benefit from the resulting increase in trade. The proceeds of a guaranteed loan, therefore, may be spent in any member country.

In the past, loans were frequently made on the basis of inadequate information, and without supervision to prevent waste and misappropriation. The Bank will be in a position to see that borrowed funds are used only for the specific purpose for which they are intended. This feature will be of inestimable value to private investors who are without the means of assuring themselves that their savings are being productively employed. The fact that the Bank may guarantee only loans that are made at reasonable rates of interest, and bear schedules of repayment and other terms appropriate to the character of the project will also benefit the private capital market. The borrower as well as the investor will be protected by these provisions. In the past, exorbitant charges imposed on foreign loans have often proved too burdensome, and at times have led to economic and political disturbances that made repayment impossible. By means of the Bank, servicing of foreign loans will be facilitated by lower rates because of reduced risks.

The Bank's earnings will be utilized so as to afford the private investor additional security. Earnings will be

as a line of defense against liabilities that might occur in case of default on loans made or guaranteed by the Bank.

The direct loans of the Bank will be of two kinds. Of greater significance will be loans where the Bank serves as intermediary between borrower and lender. The Bank may sell its own securities in a member country's market, and in turn lend directly to the ultimate borrower. Thus the Bank will be able to consolidate numerous demands for small amounts of capital and to appeal to those investors who might prefer to invest in securities issued by the Bank itself. Obligations so incurred will be secured 100 percent, as will be the guaranteed loans, by the Bank's reserves and unimpaired capital. The second form of direct loans will be made out of capital assets. The total volume of such loans will be limited to 20 percent--and is likely to be less than 10 percent--of the Bank's subscribed capital. Both direct and guaranteed loans must conform to the same standards. The projects to be financed must be endorsed by a member government and the Bank will have to be convinced that private capital is unavailable on reasonable terms, even with its guarantee. Direct and guaranteed loans will be for the most part additional loans, over and above the private loans that would ordinarily be made, and will serve directly to increase the volume of international trade.

The subscribed capital for the International Bank is $7.7 billion. The United States is the largest single stockholder with a subscription of $3.175 billion. England, China, and France in that order, are the next largest subscribers.

Because of the primary emphasis on the Bank's guaranteeing function, participating countries will probably never be required to pay more than a fraction of their respective subscriptions. The Bank has already called in 10 percent of member subscriptions of which one-fifth is in gold and the rest in currency. Another 10 percent will be subject ot call at the convenience of the Bank. This 20 percent of total subscriptions will constitute the capital from which the Bank may make direct loans. The remaining 80 percent of the Bank's capital will be held as a surety fund. Thus, out of the total of $9.1 billion of subscribed capital, members will pay in only $1.82 billion. No call will ever be made on member governments for any part of the surety fund unless a borrower defaults on a guaranteed loan, and then only if the Bank is unable to meet its obligations from reserves or commission charges.

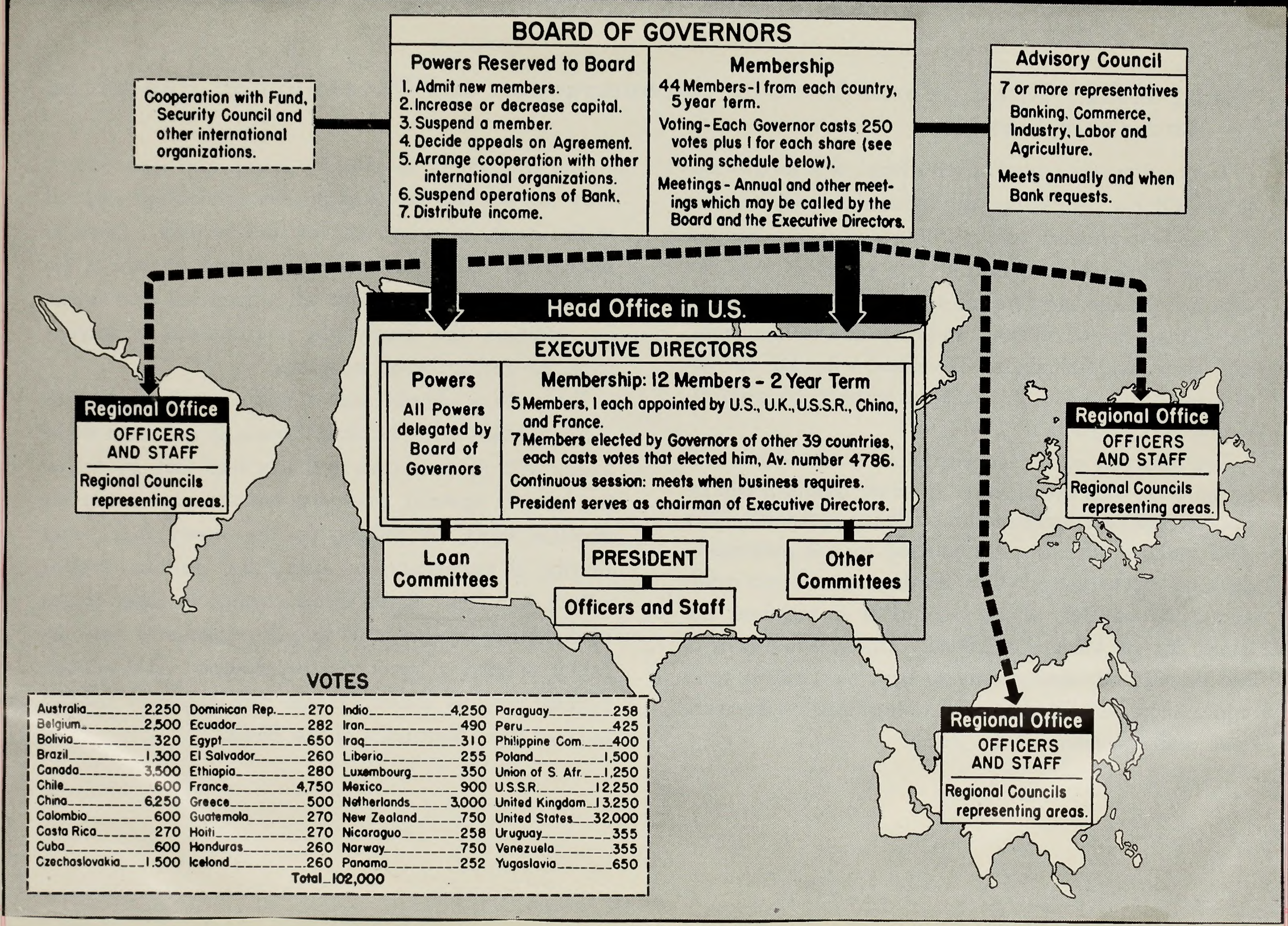
Membership in the Bank is limited to those countries which are members of the Monetary Fund. Management is under the general guidance of a Board of Governors, composed of a representative appointed by each member country. Responsible for the general operations of the Bank, and under the Board of Governors, is a board of 12 Executive Directors. Five of these Directors are appointed by the five members having the largest number of shares, and seven are elected by the other members. The President who is selected by the Executive Directors, serves as the Bank's operating head.

Once the Bank is in operation, the American investor can take advantage of foreign investment opportunities without

assuming the risks he had to assume in the past. A large portion of the total loans sponsored by the Bank will necessarily be used for purchases in the United States as we are one of the few nations in a position to export substantial quantities of heavy materials in the immediate post-war period; therefore, the Bank will help to create markets abroad for the output of our capital goods industries.

The plans that were laid down at Bretton Woods in 1944 for the World Bank represented the cooperative effort of 44 associated nations. The plans were based on the conviction that stability and security in financial and commercial relationships will remove some of the important causes of war and at the same time help to open the way for increased trade and prosperity. Today further cooperative efforts are being made to establish contact between the United Nations and the Bank and thus strengthen even more the economic structure of the Bank which will be a major factor in the future peace and economic and social structure of the world.

International Bank For Reconstruction And Development
ORGANIZATION AND MANAGEMENT



VOTES

Australia	2,250	Dominican Rep.	270	India	4,250	Paraguay	258
Belgium	2,500	Ecuador	282	Iran	490	Peru	425
Bolivia	320	Egypt	650	Iraq	310	Philippine Com.	400
Brazil	1,300	El Salvador	260	Liberia	255	Poland	1,500
Canada	3,500	Ethiopia	280	Luxembourg	350	Union of S. Afr.	1,250
Chile	600	France	4,750	Mexico	900	U.S.S.R.	12,250
China	6,250	Greece	500	Netherlands	3,000	United Kingdom	13,250
Colombia	600	Guatemala	270	New Zealand	750	United States	32,000
Costa Rica	270	Haiti	270	Nicaragua	258	Uruguay	355
Cuba	600	Honduras	260	Norway	750	Venezuela	355
Czechoslovakia	1,500	Iceland	260	Panama	252	Yugoslavia	650

Total 102,000

Chart XVII.—International Bank for Reconstruction and Development: Resources and their Uses

The authorized capital of the Bank will be 10 billion [illegible]. Of this, [illegible] billion is allocated for subscription by the 44 countries [illegible] at the Bretton Woods Conference. [illegible] that no change will be made in the subscription of the United States without authorization of Congress, nor may the American Governor vote for an increase of the capital in the Bank without the authorization of Congress.

Ten percent of the subscription to the Bank will be paid in. Of the amount paid in, one-fifth will be in gold and the remaining four-fifths in currency. The [illegible] million paid in may be used for the purpose of making direct loans. The Bank may call on additional [illegible] percent of its capital if it requires the funds for its own operations. The greater part of the subscribed capital will be kept as a surety fund which may be called to meet obligations on guarantees and securities of the Bank.

The [illegible] of the Bank's loans [illegible] not exceed the unimpaired subscribed capital of the Bank plus its reserves and surplus. [illegible] the Bank will accumulate a special reserve through commissions on guarantees and loans. In addition, the Bank will accumulate a surplus from its undistributed earnings.

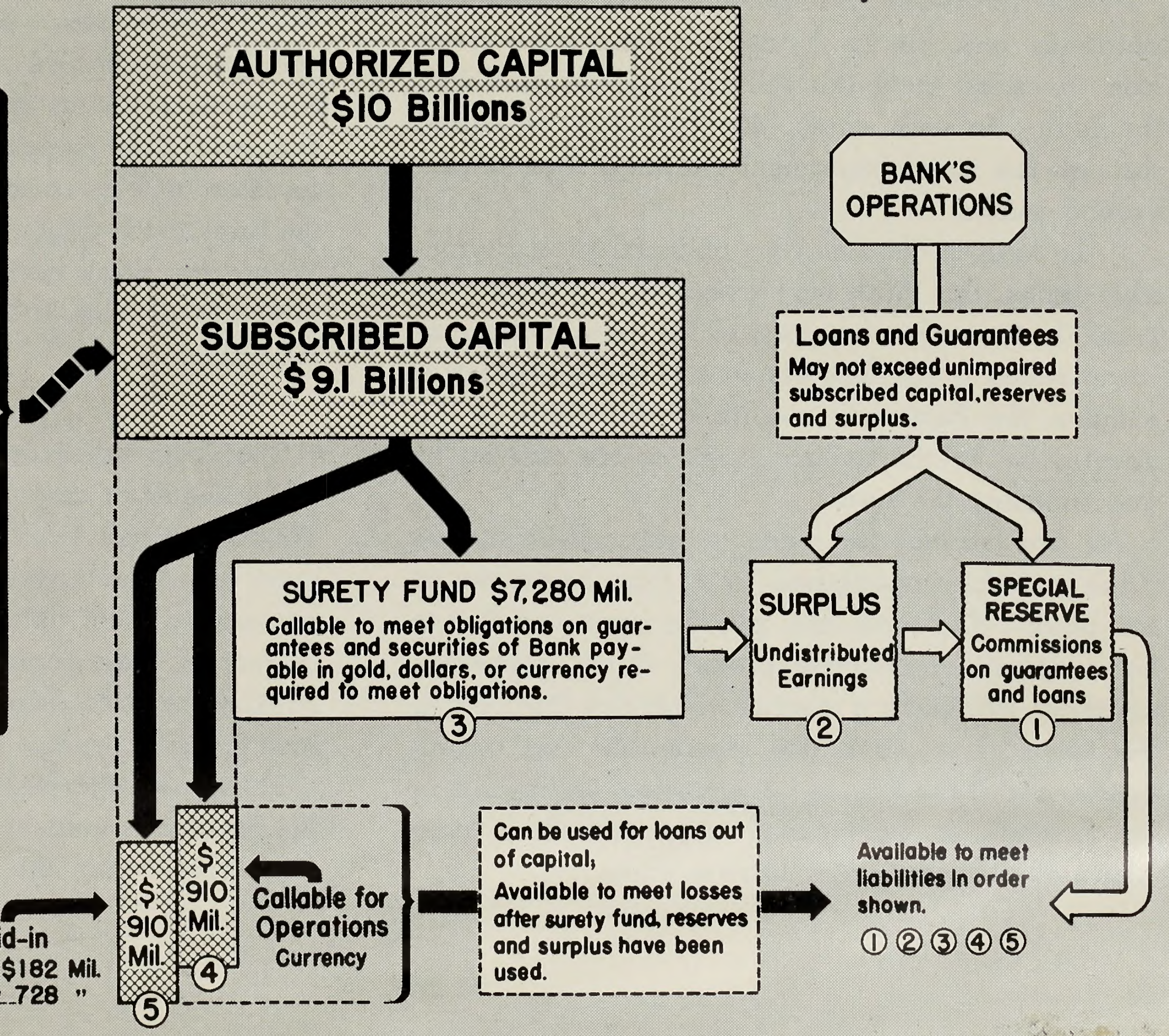
If the Bank should sustain losses on the securities it guarantees or on its direct loans, it will meet these losses with its resources in this order: first, by drawing on its special reserves; second, by using its surplus; third, by calling on the surety fund; and finally, if necessary, by using the paid-in capital which it holds. Calls upon capital to meet losses of the Bank are payable in gold, dollars or the currency needed to meet the obligations. The paid-in capital may be converted into any currency needed to meet the obligations of the Bank.

International Bank For Reconstruction And Development
RESOURCES AND THEIR USE

Subscriptions

Millions of Dollars

Australia	200	Iran	24
Belgium	225	Iraq	6
Bolivia	7	Liberia	.5
Brazil	105	Luxembourg	10
Canada	325	Mexico	65
Chile	35	Netherlands	275
China	600	New Zealand	50
Colombia	35	Nicaragua	.8
Costa Rica	2	Norway	50
Cuba	35	Panama	.2
Czechoslovakia	125	Paraguay	.8
Dominican Rep.	2	Peru	17.5
Ecuador	3.2	Philippine Com.	15
Egypt	40	Poland	125
El Salvador	1	Union of S. Afr.	100
Ethiopia	3	U.S.S.R.	1,200
France	450	United Kingdom	1,300
Greece	25	United States	3,175
Guatemala	2	Uruguay	10.5
Haiti	2	Venezuela	10.5
Honduras	1	Yugoslavia	40
Iceland	1		
India	400		



[illegible] International Bank for Reconstruction and Development: Loan Operations

I

When borrowing governments or borrowing corporations can obtain loans on reasonable terms from investors, the Bank will not concern itself with the loans. In such cases, the loan will be placed through the usual investment channels from the investing public.

If the party cannot otherwise obtain loans on reasonable terms, the Bank may guarantee or make the loan. In the case of a corporation, or another borrower which is not itself the national government of a country, the Bank will require a guarantee of the government or the central bank before making or guaranteeing the loan.

All applications for loans or guarantees by the Bank must be investigated by a loan committee of the Bank. The loan can only be approved if it is for a specific productive project, if the borrowing countries will be in a position to service the loan, if the terms of the loan are reasonable and appropriate, and if the loan is not otherwise obtainable in the market. In exceptional cases, the Bank may also make long-term stabilization loans.

If the Bank guarantees the loan, the securities will be sold to the investing public through the usual investment channels. If the loan cannot be obtained even with the Bank's guarantee, the Bank may make the loan out of its paid-in capital or out of funds borrowed from investors. The funds borrowed from investors will be raised by selling the debentures of the Bank to the public through the investment market. Where the Bank makes direct loans, it may find it desirable at some later time to resell the securities to the public.

II

The Bank will assure itself that funds borrowed by governments or corporations are economically used. When a direct loan is made by the Bank, it will open an account and the borrower will draw on the account to meet actual expenses for the approved project. On guaranteed loans the Bank will make arrangements to insure that the proceeds are used only for the purposes for which the loan was made.

These arrangements to insure economical use of the funds are intended to safeguard the interests of the borrower and the investor.

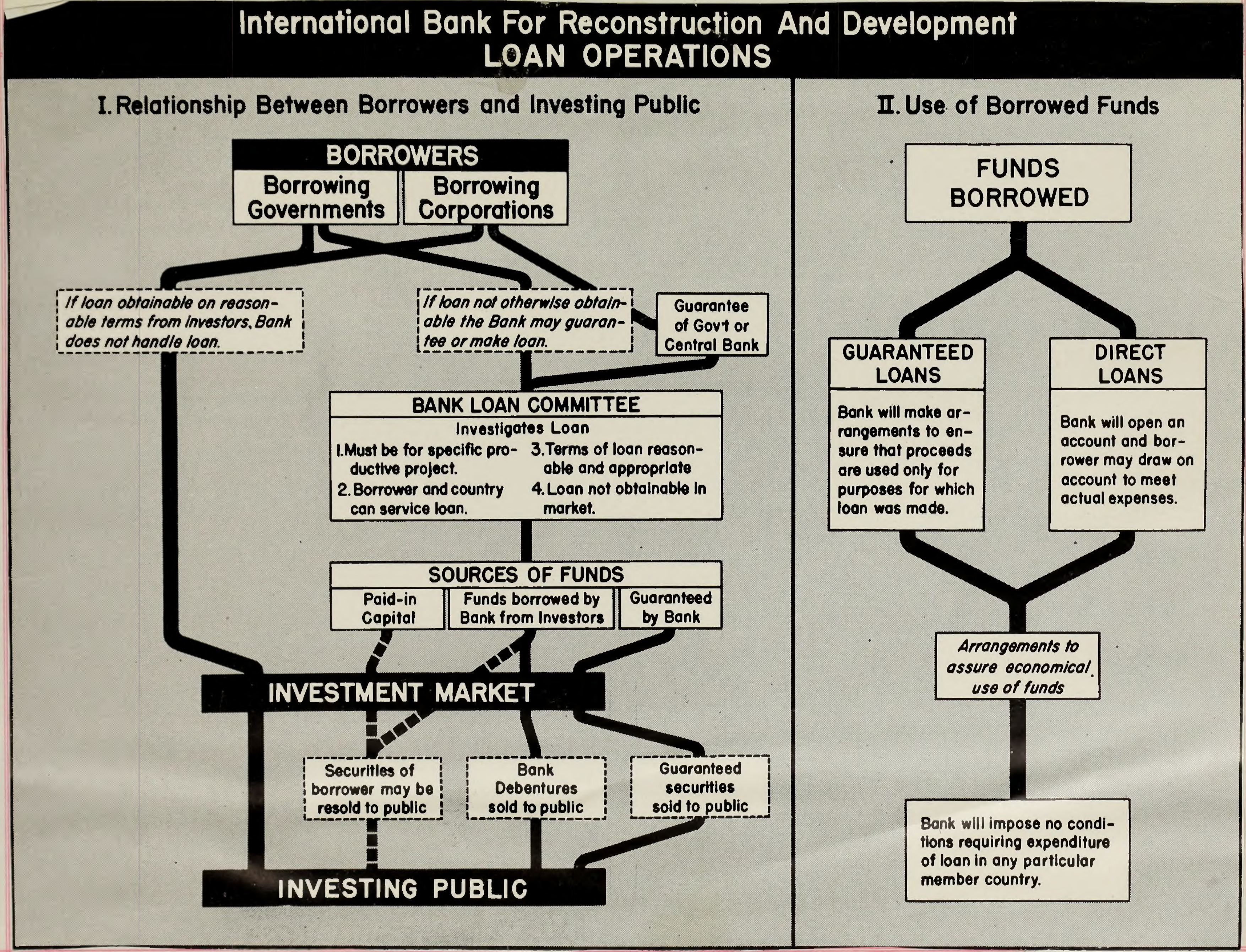

International Bank For Reconstruction And Development
LOAN OPERATIONS
I. Relationship Between Borrowers and Investing Public
BORROWERS
Borrowing Governments
Borrowing Corporations
If loan obtainable on reasonable terms from investors, Bank does not handle loan.
If loan not otherwise obtainable the Bank may guarantee or make loan.
Guarantee of Gov't or Central Bank
BANK LOAN COMMITTEE
Investigates Loan
1. Must be for specific productive project.
2. Borrower and country can service loan.
3. Terms of loan reasonable and appropriate
4. Loan not obtainable in market.
SOURCES OF FUNDS
Paid-in Capital
Funds borrowed by Bank from Investors
Guaranteed by Bank
INVESTMENT MARKET
Securities of borrower may be resold to public
Bank Debentures sold to public
Guaranteed securities sold to public
INVESTING PUBLIC
II. Use of Borrowed Funds
FUNDS BORROWED
GUARANTEED LOANS
Bank will make arrangements to ensure that proceeds are used only for purposes for which loan was made.
DIRECT LOANS
Bank will open an account and borrower may draw on account to meet actual expenses.
Arrangements to assure economical use of funds
Bank will impose no conditions requiring expenditure of loan in any particular member country.

TABLE 1
Voting Power and Subscriptions of Member Countries
(as of September 27, 1946)

Country	Voting power of member countries — International Bank: Number of votes	Per cent of total	Required subscriptions to International Bank — Total subscription: Amount (in millions of dollars)	Per cent of total	Amount which may be used (in millions of dollars): For Bank's own loans	Only to meet Bank's obligations
Belgium	2,500	2.90	225.0	2.93	45.00	180.00
Bolivia	320	.37	7.0	.09	1.40	5.60
Brazil	1,300	1.51	105.0	1.37	21.00	84.00
Canada	3,500	4.06	325.0	4.24	65.00	260.00
Chile	600	.70	35.0	.46	7.00	28.00
China	6,250	7.25	600.0	7.82	120.00	480.00
Costa Rica	270	.31	2.0	.03	.40	1.60
Cuba	600	.70	35.0	.46	7.00	28.00
Czechoslovakia	1,500	1.74	125.0	1.63	25.00	100.00
Denmark	930	1.08	68.0	.89	13.60	54.40
Dominican Republic	270	.31	2.0	.03	.40	1.60
Ecuador	282	.33	3.2	.04	.64	2.56
Egypt	650	.75	40.0	.52	8.00	32.00
El Salvador	260	.30	1.0	.01	.20	.80
Ethiopia	280	.32	3.0	.04	.60	2.40
France	4,750	5.51	450.0	5.87	90.00	360.00
Greece	500	.58	25.0	.33	5.00	20.00
Guatemala	270	.31	2.0	.03	.40	1.60
Honduras	260	.30	1.0	.01	.20	.80
Iceland	260	.30	1.0	.01	.20	.80
India	4,250	4.93	400.0	5.22	80.00	320.00
Iran	490	.57	24.0	.31	4.80	19.20
Iraq	310	.36	6.0	.08	1.20	4.80
Luxembourg	350	.41	10.0	.13	2.00	8.00
Mexico	900	1.04	65.0	.85	13.00	52.00
Netherlands	3,000	3.48	275.0	3.59	55.00	220.00
Nicaragua	258	.30	.8	.01	.16	.64
Norway	750	.87	50.0	.65	10.00	40.00
Panama	252	.29	.2	(1)	.04	.16
Paraguay	258	.30	.8	.01	.16	.64
Peru	425	.49	17.5	.23	3.50	14.00
Philippine Republic	400	.45	15.0	.20	3.00	12.00
Poland	1,500	1.74	125.0	1.63	25.00	100.00
Union of South Africa	1,250	1.45	100.0	1.30	20.00	80.00
United Kingdom	13,250	15.37	1,300.0	16.95	260.00	1,040.00
United States	32,000	37.12	3,175.0	41.40	635.00	2,540.00
Uruguay	355	.41	10.5	.14	2.10	8.40
Yugoslavia	650	.75	40.0	.52	8.00	32.00
Total	86,200	[2]100.00	7,670.0	[2]100.00	1,534.00	6,136.00

[1] Less than .005 per cent.

[2] The figures shown in the table do not add to 100.00 because of rounding.

TABLE 2

Voting Power of Executive Directors*

(as of September 27, 1946)

		Number of votes	Per cent of total voting power
Directors appointed by:			
1. United States		32,000	37.53
2. United Kingdom		13,250	15.54
3. China		6,250	7.33
4. France		4,750	5.57
5. India		4,250	4.98
Elected Directors			
6. Beyen (Netherlands), elected by votes of:			
Netherlands	3,000		
Union of South-Africa	1,250		
		4,250	4.98
7. Ansiaux (Belgium), elected by votes of:			
Belgium	2,500		
Norway	750		
Luxembourg	350		
Iceland	260		
		3,860	4.53
8. Moller (Chile), elected by votes of:			
Brazil	1,300		
Chile	600		
Philippine Republic	400		
Bolivia	320		
Costa Rica	270		
Guatemala	270		
Paraguay	258		
Panama	252		
		3,670	4.30
9. Baranski (Poland), elected by votes of:			
Czechoslovakia	1,500		
Poland	1,500		
Yugoslavia	650		
		3,650	4.28
10. Machado (Cuba), elected by votes of:			
Mexico	900		
Cuba	600		
Peru	425		
Uruguay	355		
Ecuador	282		
Dominican Republic	270		
El Salvador	260		
Honduras	260		
Nicaragua	258		
		3,610	4.23
11. Bryce (Canada), elected by votes of:			
Canada	3,500	3,500	4.11
12. Varvaressos (Greece), elected by votes of:			
Egypt	650		
Greece	500		
Iran	490		
Iraq	310		
Ethiopia	280		
		2,230	2.62
Total		85,270	100.00

*The total number of votes and the percentage distribution of the voting power of member countries are affected by the fact that Denmark did not join in time to participate in the elections.

Appendix "F", (Cont.)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

BALANCE SHEET—JUNE 30, 1946

		Expressed in U. S. dollars
ASSETS		
Due from banks (United States currency)		$159, 136, 919
Receivable from members for calls on subscriptions to capital stock:		
Due August 24, 1946	$89, 450, 500	
Due November 25, 1946	134, 850, 000	
		224,300,500
Other assets		483
		$383,437,902
LIABILITIES AND CAPITAL		
Accounts payable and accrued expenses		$ 63,061
Capital stock:		
Authorized—100,000 shares of $100,000 par value each	$10,000,000,000	
Subscribed but not issued—76,700 shares	$7,670,000,000	
Less—Uncalled portion of subscriptions	7,286,500,000	
	383,500,000	
Deduct:		
Organization and other initial expenses from December 27, 1945 to June 30, 1946	125,159	
		383,374,841
		$ 383,437,902

Appendix "F", (Cont.)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Members' Subscriptions to Capital Stock and Balances due on Calls June 30, 1946

(Expressed in U. S. Dollars)

Member Country	Subscription		Amounts called to June 30, 1946	Amounts received to June 30, 1946	Balances receivable at June 30, 1946		
	Shares	Amount			Total	Due Aug. 24 1946	Due Nov. 25 1946
Belgium	2,250	$225,000,000	$11,250,000	$22,500	$11,227,500	$4,477,500	$6,750,000
Bolivia	70	7,000,000	350,000	700	349,300	139,300	210,000
Brazil	1,050	105,000,000	5,250,000	10,500	5,239,500	2,089,500	3,150,000
Canada	3,250	325,000,000	16,250,000	32,500	16,217,500	6,467,500	9,750,000
Chile	350	35,000,000	1,750,000	3,500	1,746,500	696,500	1,050,000
China	6,000	600,000,000	30,000,000	60,000	29,940,000	11,940,000	18,000,000
Costa Rica	20	2,000,000	100,000	200	99,800	39,800	60,000
Cuba	350	35,000,000	1,750,000	3,500	1,746,500	696,500	1,050,000
Czechoslovakia	1,250	125,000,000	6,250,000	12,500	6,237,500	2,487,500	3,750,000
Denmark	680	68,000,000	3,400,000	6,800	3,393,200	1,353,200	2,040,000
Dominican Republic	20	2,000,000	100,000	200	99,800	39,800	60,000
Ecuador	32	3,200,000	160,000	320	159,680	63,680	96,000
Egypt	400	40,000,000	2,000,000	4,000	1,996,000	796,000	1,200,000
El Salvador	10	1,000,000	50,000	100	49,900	19,900	30,000
Ethiopia	30	3,000,000	150,000	300	149,700	59,700	90,000
France	4,500	450,000,000	22,500,000	45,000	22,455,000	8,955,000	13,500,000
Greece	250	25,000,000	1,250,000	2,500	1,247,500	497,500	750,000
Guatemala	20	2,000,000	100,000	200	99,800	39,800	60,000
Honduras	10	1,000,000	50,000	100	49,900	19,900	30,000
Iceland	10	1,000,000	50,000	100	49,900	19,900	30,000
India	4,000	400,000,000	20,000,000	40,000	19,960,000	7,960,000	12,000,000
Iran	240	24,000,000	1,200,000	2,400	1,197,600	477,600	720,000
Iraq	60	6,000,000	300,000	600	299,400	119,400	180,000
Luxembourg	100	10,000,000	500,000	1,000	499,000	199,000	300,000
Mexico	650	65,000,000	3,250,000	6,500	3,243,500	1,293,500	1,950,000
Netherlands	2,750	275,000,000	13,750,000	27,500	13,722,500	5,472,500	8,250,000
Nicaragua	8	800,000	40,000	80	39,920	15,920	24,0[illegible]
Norway	500	50,000,000	2,500,000	5,000	2,495,000	995,000	1,500,000

Appendix "F", (Cont.)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Members' Subscriptions to Capital Stock and Balances Due on Calls—June 30, 1946

(Expressed in U. S. Dollars)

Member Country	Subscription		Amounts called to June 30, 1946	Amounts received to June 30, 1946	Balances Receivable at June 30, 1946		
	Shares	Amount			Total	Due Aug. 24 1946	Due Nov. 25 1946
Panama	2	$ 200,000	$ 10,000	$ 20	$ 9,980	$ 3,980	$ 6,000
Paraguay	8	800,000	40,000	80	39,920	15,920	24,000
Peru	175	17,500,000	875,000	1,750	873,250	348,250	525,000
Philippines	150	15,000,000	750,000	1,500	748,500	298,500	450,000
Poland	1,250	125,000,000	6,250,000	12,500	6,237,500	2,487,500	3,750,000
Union of South Africa	1,000	100,000,000	5,000,000	10,000	4,990,000	1,990,000	3,000,000
United Kingdom	13,000	1,300,000,000	65,000,000	130,000	64,870,000	25,870,000	39,000,000
United States of America	31,750	3,175,000,000	158,750,000	158,750,000	------	------	------
Uruguay	105	10,500,000	525,000	1,050	523,950	208,950	315,000
Yugoslavia	400	40,000,000	2,000,000	4,000	1,996,000	796,000	1,200,000
Totals	76,700	$7,670,000,000	$383,500,000	$159,199,500	$224,300,500	$89,450,500	$134,850,000

Notes:

(A) The amounts of subscriptions called to June 30, 1946 comprised—

One one-hundredth of one percent, payable by members at the time of signing the Articles of Agreement	$ 767,000
Balance of the first two percent, payable on or before August 24, 1946	152,633,000
Three percent, payable on or before November 25, 1946	230,100,000
Total, as above	$383,500,000

(B) In August 1946, the Executive Directors authorized deferment until June 25, 1951 of amounts equal to one-half of one percent of subscriptions with respect to calls payable by certain members, as follows: China $3,000,000; Czechoslovakia $625,000; Denmark $340,000; Greece $125,000; Norway $250,000; Poland $625,000; Yugoslavia $200,000; (total $5,165,000).

Additional deferments have been requested by Czechoslovakia and Yugoslavia with respect to the remainder of the balances due August 24, 1946 from those members, $1,862,500 and $596,000, respectively. Action on these two requests was still pending at the date of this report.

Appendix "F", (Cont.)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Organization and Other Initial Expenses From December 27, 1945, to June 30, 1946

	Expressed in U. S. dollars
Salaries and expense allowances of Executive Directors and Alternates	$28,372
Other salaries—	
Officers	821
Staff	7,478
Provision for reimbursement of income taxes on salaries and expense allowances (estimated)	3,308
Travel—	
Governors and Alternates	33,086
Other	7,364
Rental of office quarters	4,772
Stationery and supplies	5,262
Postage, telephone, telegraph and cable	2,209
Miscellaneous expense	2,410
Office furniture and equipment	30,077
	$125,159

APPENDIX "G" — Exhibit A

Financial Statements as of August 31, 1946

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Balance Sheet—August 31, 1946

ASSETS			
GOLD (Valued at $35 per fine troy ounce)			
Federal Reserve Bank of New York		$9,395,758.64	
Bank of England		4,676,499.98	$14,072,258.62
DUE FROM BANKS			
Member Currency—United States:			
Federal Reserve Bank of New York	$224,730,887.11		
American Security and Trust Co., Washington, D. C.	39,068.21	$224,769,955.32	
Member Currency—Other than United States—Note A		2,960,000.00	227,729,955.32
CALLS ON SUBSCRIPTIONS TO CAPITAL STOCK—Note B			
2% Call:			
Payment in process	$ 1,989,616.30		
Pending requests for deferment	2,458,500.00		
Payments Deferred until June 25, 1951	5,165,000.00	$9,613,116.30	
3% Call:		133,740,000.00	143,353,116.30
MISCELLANEOUS ASSETS			2,183.40
TOTAL ASSETS			$385,157,513.64
LIABILITIES AND CAPITAL			
LIABILITIES			
Accounts payable and accrued expenses		$73,948.35	
Reserve for estimated liability for income tax on salaries		15,728.42	
Deferred credits—advance payments on stock subscription		1,850,000.00	
			$1,939,676.77
TOTAL LIABILITIES			
CAPITAL			
Capital Stock $100,000 par value			
Authorized 100,000 shares			
Unsubscribed 23,300 shares			
Subscribed	$7,670,000,000.00		
Less: Subscriptions not Called	7,286,500,000.00	$383,500,000.00	
Deduct:			
Deficit (Exhibit B)		282,163.13	$383,217,836.87
TOTAL LIABILITIES AND CAPITAL			$385,157,513.64

Note A—Converted to U. S. dollars at rates of exchange in effect at date of deposit.

Note B—As of June 25, 1946, 2% and 3% capital stock subscription calls were made, payable on or before August 24, 1946 and November 25, 1946, respectively.

Appendix "G", (Cont.)
Exhibit B

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Deficit—August 31, 1946

DEFICIT JUNE 30, 1946			
Operating Expenses from the beginning of operations of the Bank (including expenses of the inaugural meeting of the Board of Governors in Savannah, Ga.)			$125,158.36
Add:			
OPERATING EXPENSES FOR THE PERIOD FROM JULY 1 TO AUGUST 31, 1946			
Salaries:			
Executive Directors and Alternates	$ 42,447.72		
Officers	15,647.99		
Others	25,229.97	$83,325.68	
Expense Allowance—Executive Directors and Alternates		2,006.46	
Provision for Income Taxes on Salaries		12,420.36	
Transportation and Moving to Seat of Bank		1,388.52	
Travel:			
Executive Directors and Alternates	$ 70.23		
Others	1,103.29	1,173.52	
Rental of Office Quarters		7,546.11	
Furniture and Equipment		37,175.61	
Stationery, Printing and Supplies		4,577.05	
Telephone and Telegraph		285.38	
Cable Charges		3,412.89	
Handling, Shipping and Storage of Gold		52.10	
Books and Periodicals		241.11	
Rental of Equipment		36.50	
Repairs, Maintenance and Alterations:			
Rented Quarters	$ 3,257.36		
Furniture and Equipment	45.50	3,302.86	
Miscellaneous		60.62	157,004.77
DEFICIT, AUGUST 31, 1946			$282,163.13

Appendix "G", (Cont.)
Exhibit C

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Statement of Receipts and Disbursements From July 1, 1946 to August 31, 1946

I FUNDS DERIVED FROM 2% CALL ON STOCK SUBSCRIPTIONS			
BALANCE JULY 1, 1946			$63,886,919.33
RECEIPTS			
Payments on call		$79,837,383.70	
Deduct:			
DISBURSEMENTS			
Operating Expenses: (Exhibit B) $	157,004.77		
Deduct: Expenses Unpaid as of Aug. 31, 1946	75,043.44		
$	81,961.33		
Payment of Expenses Unpaid at June 30, 1946	48,427.76		
Miscellaneous Advances	1,700.00	132,089.09	79,705,294.61
BALANCE AUGUST 31, 1946			$143,592,213.94
REPRESENTED BY:			
GOLD:			
Federal Reserve Bank of New York $	9,395,758.64		
Bank of England	4,676,499.98	$14,072,258.62	
MEMBER CURRENCY—UNITED STATES			
Federal Reserve Bank of New York Account B	$129,480,887.11		
American Security and Trust Co., Wash., D. C.	39,068.21	129,519,955.32	
Total		$143,592,213.94	
II FUNDS DERIVED FROM 3% CALL AND ADVANCE PAYMENT ON 5% CALL ON STOCK SUBSCRIPTIONS			
BALANCE JULY 1, 1946			$95,250,000.00
RECEIPTS			
Payments on 3% call		$1,110,000.00	
Advance payment on 5% call		1,850,000.00	2,960,000.00
BALANCE AUGUST 31, 1946			$98,210,000.00
REPRESENTED BY:			
Federal Reserve Bank of New York Account A		$ 95,250,000.00	
Currency Depositories of Members other than United States		2,960,000.00	
		$ 98,210,000.00	
III COMBINED FUNDS			
BALANCE JULY 1, 1946			$159,136,919.33
RECEIPTS			
Payments on 2% call on Stock Subscriptions		$79,837,383.70	
Payments on 3% call on Stock Subscriptions		1,110,000.00	
Advance payments on 5% call on Stock Subscriptions		1,850,000.00	82,797,383.70
			$241,934,303.03
DISBURSEMENTS (From Item I above)			132,089.09
BALANCE AUGUST 31, 1946			$241,802,213.94

INTERNATIONAL BANK FOR RECO

STATEMENT OF CAPIT

	SUBSCRIBED AMOUNT	CALLS ON SUBSCRIPTIONS 1/			
		1/100 of 1%	Balance of 2%	3%	Total
Belgium	$225,000.000.	$ 22,500.	$ 4,477.500.	$ 6,750,000.	$ 11,250,000.
Bolivia	7,000,000.	700.	139,300.	210,000.	350,000.
Brazil	105,000,000.	10,500.	2,089,500.	3,150,000.	5,250,000.
Canada	325,000,000.	32,500.	6,467,500.	9,750,000.	16,250,000.
Chile	35,000,000.	3,500.	696,500.	1,050,000.	1,750,000.
China	600,000,000.	60,000.	11,940,000.	18,000,000.	30,000,000.
Costa Rica	2,000,000.	200.	39,800.	60,000.	100,000.
Cuba	35,000,000.	3,500.	696,500.	1,050,000.	1,750,000.
Czechoslovakia	125,000,000.	12,500.	2,487,500.	3,750,000.	6,250,000.
Denmark	68,000,000.	6,800.	1,353,200.	2,040,000.	3,400,000.
Dominican Republic	2,000,000.	200.	39,800.	60,000.	100,000.
Ecuador	3,200,000.	320.	63,680.	96,000.	160,000.
Egypt	40,000,000.	4,000.	796,000.	1,200,000.	2,000,000.
El Salvador	1,000,000.	100.	19,900.	30,000.	50,000.
Ethiopia	3,000,000.	300.	59,700.	90,000.	150,000.
France	450,000,000.	45,000.	8,955,000.	13,500,000.	22,500,000.
Greece	25,000,000.	2,500.	497,500.	750,000.	1,250,000.
Guatemala	2,000,000.	200.	39,800.	60,000.	100,000.
Honduras	1,000,000.	100.	19,900.	30,000.	50,000.
Iceland	1,000,000.	100.	19,900.	30,000.	50,000.
India	400,000,000.	40,000.	7,960,000.	12,000,000.	20,000,000.
Iran	24,000,000.	2,400.	477,600.	720,000.	1,200,000.
Iraq	6,000,000.	600.	119,400.	180,000.	300,000.
Luxembourg	10,000,000.	1,000.	199,000.	300,000.	500,000.
Mexico	65,000,000.	6,500.	1,293,500.	1,950,000.	3,250,000.
Netherlands	275,000,000.	27,500.	5,472,500.	8,250,000.	13,750,000.
Nicaragua	800,000.	80.	15,920.	24,000.	40,000.
Norway	50,000,000.	5,000.	995,000.	1,500,000.	2,500,000.
Panama	200,000.	20.	3,980.	6,000.	10,000.
Paraguay	800,000.	80.	15,920.	24,000.	40,000.
Peru	17,500,000.	1,750.	348,250.	525,000.	875,000.
Philippine Republic	15,000,000.	1,500.	298,500.	450,000.	750,000.
Poland	125,000,000.	12,500.	2,487,500.	3,750,000.	6,250,000.
Union of S. Africa	100,000,000.	10,000.	1,990,000.	3,000,000.	5,000,000.
United Kingdom	1,300,000,000.	130,000.	25,870,000.	39,000,000.	65,000,000.
United States	3,175,000,000.	317,500.	63,182,500.	95,250,000.	158,750,000.
Uruguay	10,500,000.	1,050.	208,950.	315,000.	525,000.
Yugoslavia	40,000,000.	4,000.	796,000.	1,200,000.	2,000,000.
	$7,670,000,000.	$767,000.	$152,633,000.	$230,100,000.	$383,500,000.

1/ 2% of the subscriptions to the capital stock of the Bank was payable in gold or United States dollars, 1/100 of 1% of the subscription being payable at the time the Agreement was signed and the balance being payable on or before August 25, 1946. 3% of such subscriptions payable in the currencies of the respective members of the Bank was called, as of June 25, 1946, for payment on or before November 25, 1946.

2/ Balances of the 2% on subscriptions were paid in gold by Belgium, Chile, Ethiopia, Luxembourg, Mexico, Netherlands, Nicaragua and Poland.

NSTRUCTION AND DEVELOPMENT
OCK—AUGUST 31, 1946

PAYMENTS ON CALLS 2/	UNPAID BALANCES ON CALLS			
	2% Call Deferments 3/	2% Call Other 4/	3% Call 1/	TOTAL
$ 4,500,000.	$ ----	$ ----	$ 6,750,000.	$ 6,750,000.
140,000.	----	----	210,000.	210,000.
2,100,000.	----	----	3,150,000.	3,150,000.
6,500,000.	----	----	9,750,000.	9,750,000.
1,750,000.	----	----	----	----
9,000,000.	3,000,000.	----	18,000,000.	21,000,000.
100,000.	----	----	----	----
700,000.	----	----	1,050,000.	1,050,000.
12,500.	625,000.	1,862,500.	3,750,000.	6,237,500.
1,020,000.	340,000.	----	2,040,000.	2,380,000.
40,000.	----	----	60,000.	60,000.
64,000.	----	----	96,000.	96,000.
800,000.	----	----	1,200,000.	1,200,000.
20,000.	----	----	30,000.	30,000.
60,000.	----	----	90,000.	90,000.
9,000,000.	----	----	13,500,000.	13,500,000.
375,000.	125,000.	----	750,000.	875,000.
40,000.	----	----	60,000.	60,000.
20,000.	----	----	30,000.	30,000.
20,000.	----	----	30,000.	30,000.
8,000,000.	----	----	12,000,000.	12,000,000.
480,000.	----	----	720,000.	720,000.
120,000.	----	----	180,000.	180,000.
200,000.	----	----	300,000.	300,000.
1,300,000.	----	----	1,950,000.	1,950,000.
5,500,000.	----	----	8,250,000.	8,250,000.
16,000.	----	----	24,000.	24,000.
750,000.	250,000.	----	1,500,000.	1,750,000.
4,000.	----	----	6,000.	6,000.
16,000.	----	----	24,000.	24,000.
350,000.	----	----	525,000.	525,000.
300,000.	----	----	450,000.	450,000.
1,875,000.	625,000.	----	3,750,000.	4,375,000.
10,383.70	----	1,989,616.30	3,000,000.	4,989,616.30
26,000,000.	----	----	39,000,000.	39,000,000.
158,750,000.	----	----	----	----
210,000.	----	----	315,000.	315,000.
4,000.	200,000.	596,000.	1,200,000.	1,996,000.
$240,146,883.70	$5,165,000.	$4,448,116.30	$133,740,000.	$143,353,116.30

3/ Deferments of ½ of 1% of subscriptions granted pursuant to Art. II, Sec. 8(a)(i).

4/ Czechoslovakia and Yugoslavia have requested deferment of the balance of 1½% of their subscriptions pursuant to Art. II, Sec. 8(a)(ii). These requests are still under consideration. The Union of South Africa is reported to have shipped gold on August 24, 1946, in payment of balance.

COMMITTEE REPORTS ADOPTED BY THE BOARD OF GOVERNORS

FIRST REPORT OF THE PROCEDURES COMMITTEE (JOINT)

Chairman:	United States
Vice Chairman:	United Kingdom
Reporting Member:	Egypt—Ahmed Zaki Bey Saad
Members:	Belgium, Brazil, Canada, China, France, India, Mexico, Netherlands, and Poland.

The Procedures Committee had its first meeting at 10:00 a.m., September 28, with Mr. John W. Snyder as Chairman.

1. *Agenda*

The Procedures Committee had before it a letter from the President of the Bank proposing a revised agenda, and a request from Denmark which was to be placed on the agenda. After consideration, the Procedures Committee recommends the following agenda for the First Annual Meeting of the Board of Governors:

1. Organization of Meeting
2. First Annual Report of the Executive Directors (including the financial statements)
3. Rules of Procedure of the Executive Directors
4. Proposed amendments to the By-Laws
5. Selection of Advisory Council
6. Voting by Denmark
7. Applications for membership—Syria, Lebanon, Italy and Turkey
8. Increases in capital subscriptions
9. Election of Officers and place of next Annual Meeting.

2. *Number and Terms of Reference of Committees*

To consider the items on the agenda and to make reports to the Board of Governors, the Procedures Committee recommends that the Board of Governors establish the following committees:

A. *Rules and Regulations Committee*

To consider and report on the:

(i) Report of the Executive Directors recommending certain amendments to the By-Laws of the Bank, which is a matter for action by the Board of Governors.

(ii) Rules of Procedure for Meetings of the Executive Di-

TEXT OF
ARTICLES OF AGREEMENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

The International Bank for Reconstruction and Development is established and shall operate in accordance with the following provisions:

Article I
PURPOSES

The purposes of the Bank are:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

Article II

MEMBERSHIP IN AND CAPITAL OF THE BANK

Section 1. *Membership*

(a) The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank before the date specified in Article XI, Section 2 (e).

(b) Membership shall be open to other members of the Fund, at such times and in accordance with such terms as may be prescribed by the Bank.

Section 2. *Authorized capital*

(a) The authorized capital stock of the Bank shall be $10,000,000,000, in terms of United States dollars of the weight and fineness in effect on July 1, 1944. The capital stock shall be divided into 100,000 shares having a par value of $100,000 each, which shall be available for subscription only by members.

(b) The capital stock may be increased when the Bank deems it advisable by a three-fourths majority of the total voting power.

Section 3. *Subscription of shares*

(a) Each member shall subscribe shares of the capital stock of the Bank. The minimum number of shares to be subscribed by the original members shall be those set forth in Schedule A. The minimum number of shares to be subscribed by other members shall be determined by the Bank, which shall reserve a sufficient portion of its capital stock for subscription by such members.

(b) The Bank shall prescribe rules laying down the conditions under which members may subscribe shares of the authorized capital stock of the Bank in addition to their minimum subscriptions.

(c) If the authorized capital stock of the Bank is increased, each member shall have a reasonable opportunity to subscribe, under such conditions as the Bank shall decide, a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe any part of the increased capital.

Section 4. *Issue price of shares*

Shares included in the minimum subscriptions of original members shall be issued at par. Other shares shall be issued at par unless the Bank by a majority of the total voting power decides in special circumstances to issue them on other terms.

Section 5. *Division and calls of subscribed capital*

The subscription of each member shall be divided into two parts as follows:

(i) twenty percent shall be paid or subject to call under Section 7 (i) of this Article as needed by the Bank for its operations;

(ii) the remaining eighty percent shall be subject to call by the Bank only when required to meet obligations of the Bank created under Article IV, Sections 1 (a) (ii) and (iii).

Calls on unpaid subscriptions shall be uniform on all shares.

Section 6. *Limitation on liability*

Liability on shares shall be limited to the unpaid portion of the issue price of the shares.

Section 7. *Method of payment of subscriptions for shares*

Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members as follows:

(i) under Section 5 (i) of this Article, two percent of the price of each share shall be payable in gold or United States dollars, and, when calls are made, the remaining eighteen percent shall be paid in the currency of the member;

(ii) when a call is made under Section 5 (ii) of this Article, payment may be made at the option of the member either in gold, in United States dollars or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made;

(iii) when a member makes payments in any currency under (i) and (ii) above, such payments shall be made in amounts equal in value to the member's liability under the call. This liability shall be a proportionate part of the subscribed capital stock of the Bank as authorized and defined in Section 2 of this Article.

Section 8. *Time of payment of subscriptions*

(a) The two percent payable on each share in gold or United States dollars under Section 7 (i) of this Article, shall be

paid within sixty days of the date on which the Bank begins operations, provided that

(i) any original member of the Bank whose metropolitan territory has suffered from enemy occupation or hostilities during the present war shall be granted the right to postpone payment of one-half percent until five years after that date;
(ii) an original member who cannot make such a payment because it has not recovered possession of its gold reserves which are still seized or immobilized as a result of the war may postpone all payment until such date as the Bank shall decide.

(b) The remainder of the price of each share payable under Section 7 (i) of this Article shall be paid as and when called by the Bank, provided that

(i) the Bank shall, within one year of its beginning operations, call not less than eight percent of the price of the share in addition to the payment of two percent referred to in (a) above;
(ii) not more than five percent of the price of the share shall be called in any period of three months.

Section 9. *Maintenance of value of certain currency holdings of the Bank*

(a) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within that member's territories, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value, as of the time of initial subscription, of the amount of the currency of such member which is held by the Bank and derived from currency originally paid in to the Bank by the member under Article II, Section 7 (i), from currency referred to in Article IV, Section 2 (b), or from any additional currency furnished under the provisions of the present paragraph, and which has not been repurchased by the member for gold or for the currency of any member which is acceptable to the Bank.

(b) Whenever the par value of a member's currency is increased, the Bank shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency described in (a) above.

(c) The provisions of the preceding paragraphs may be

waived by the Bank when a uniform proportionate change in the par values of the currencies of all its members is made by the International Monetary Fund.

Section 10. *Restriction on disposal of shares*

Shares shall not be pledged or encumbered in any manner whatever and they shall be transferable only to the Bank.

Article III
GENERAL PROVISIONS RELATING TO LOANS AND GUARANTEES

Section 1. *Use of resources*

(a) The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike.

(b) For the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction.

Section 2. *Dealings between members and the Bank*

Each member shall deal with the Bank only through its Treasury, central bank, stabilization fund or other similar fiscal agency, and the Bank shall deal with members only by or through the same agencies.

Section 3. *Limitations on guarantees and borrowings of the Bank*

The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank.

Section 4. *Conditions on which the Bank may guarantee or make loans*

The Bank may guarantee, participate in, or make loans to any member or any political sub-division thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to the following conditions:

(i) When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(vi) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

Section 5. *Use of loans guaranteed, participated in or made by the Bank*

(a) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members.

(b) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

(c) In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the

Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

Article IV
OPERATIONS

Section 1. *Methods of making or facilitating loans*

(a) The Bank may make or facilitate loans which satisfy the general conditions of Article III in any of the following ways:

(i) By making or participating in direct loans out of its own funds corresponding to its unimpaired paid-up capital and surplus and, subject to Section 6 of this Article, to its reserves.

(ii) By making or participating in direct loans out of funds raised in the market of a member, or otherwise borrowed by the Bank.

(iii) By guaranteeing in whole or in part loans made by private investors through the usual investment channels.

(b) The Bank may borrow funds under (a) (ii) above or guarantee loans under (a) (iii) above only with the approval of the member in whose markets the funds are raised and the member in whose currency the loan is denominated, and only if those members agree that the proceeds may be exchanged for the currency of any other member without restriction.

Section 2. *Availability and transferability of currencies*

(a) Currencies paid into the Bank under Article II, Section 7 (i), shall be loaned only with the approval in each case of the member whose currency is involved; provided, however, that if necessary, after the Bank's subscribed capital has been entirely called, such currencies shall, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to such contractual payments on loans guaranteed by the Bank.

(b) Currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made with currencies referred to in (a) above shall be exchanged for the currencies of other members or reloaned only with the approval in each case of the members whose currencies are involved; provided, however, that if necessary, after the Bank's subscribed capital has been entirely called, such currencies shall,

without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to such contractual payments on loans guaranteed by the Bank.

(c) Currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made by the Bank under Section 1 (a) (ii) of this Article, shall be held and used, without restriction by the members, to make amortization payments, or to anticipate payment of or repurchase part or all of the Bank's own obligations.

(d) All other currencies available to the Bank, including those raised in the market or otherwise borrowed under Section 1 (a) (ii) of this Article, those obtained by the sale of gold, those received as payments of interest and other charges for direct loans made under Sections 1 (a) (i) and (ii), and those received as payments of commissions and other charges under Section 1 (a) (iii), shall be used or exchanged for other currencies or gold required in the operations of the Bank without restriction by the members whose currencies are offered.

(e) Currencies raised in the markets of members by borrowers on loans guaranteed by the Bank under Section 1 (a) (iii) of this Article, shall also be used or exchanged for other currencies without restriction by such members.

Section 3. *Provision of currencies for direct loans*

The following provisions shall apply to direct loans under Sections 1 (a) (i) and (ii) of this Article:

(a) The Bank shall furnish the borrower with such currencies of members, other than the member in whose territories the project is located, as are needed by the borrower for expenditures to be made in the territories of such other members to carry out the purposes of the loan.

(b) The Bank may, in exceptional circumstances when local currency required for the purposes of the loan cannot be raised by the borrower on reasonable terms, provide the borrower as part of the loan with an appropriate amount of that currency.

(c) The Bank, if the project gives rise indirectly to an increased need for foreign exchange by the member in whose terri-

tories the project is located, may in exceptional circumstances provide the borrower as part of the loan with an appropriate amount of gold or foreign exchange not in excess of the borrower's local expenditure in connection with the purposes of the loan.

(d) The Bank may, in exceptional circumstances, at the request of a member in whose territories a portion of the loan is spent, repurchase with gold or foreign exchange a part of that member's currency thus spent but in no case shall the part so repurchased exceed the amount by which the expenditure of the loan in those territories gives rise to an increased need for foreign exchange.

Section 4. *Payment provisions for direct loans*

Loan contracts under Section 1 (a) (i) or (ii) of this Article shall be made in accordance with the following payment provisions:

(a) The terms and conditions of interest and amortization payments, maturity and dates of payment of each loan shall be determined by the Bank. The Bank shall also determine the rate and any other terms and conditions of commission to be charged in connection with such loan.

In the case of loans made under Section 1 (a) (ii) of this Article during the first ten years of the Bank's operations, this rate of commission shall be not less than one percent per annum and not greater than one and one-half percent per annum, and shall be charged on the outstanding portion of any such loan. At the end of this period of ten years, the rate of commission may be reduced by the Bank with respect both to the outstanding portions of loans already made and to future loans, if the reserves accumulated by the Bank under Section 6 of this Article and out of other earnings are considered by it sufficient to justify a reduction. In the case of future loans the Bank shall also have discretion to increase the rate of commission beyond the above limit, if experience indicates that an increase is advisable.

(b) All loan contracts shall stipulate the currency or currencies in which payments under the contract shall be made to the Bank. At the option of the borrower, however, such payments may be made in gold, or subject to the agreement of the Bank, in the currency of a member other than that prescribed in the contract.

(i) In the case of loans made under Section 1 (a) (i) of this Article, the loan contracts shall provide that payments to the Bank of interest, other charges and amortization shall be made in the currency loaned, unless the member whose currency is loaned agrees that such payments shall be made in some other specified currency or currencies. These payments, subject to the provisions of Article II, Section 9 (c), shall be equivalent to the value of such contractual payments at the time the loans were made, in terms of a currency specified for the purpose by the Bank by a three-fourths majority of the total voting power.

(ii) In the case of loans made under Section 1 (a) (ii) of this Article, the total amount outstanding and payable to the Bank in any one currency shall at no time exceed the total amount of the outstanding borrowings made by the Bank under Section 1 (a) (ii) and payable in the same currency.

(c) If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payment. If the Bank is satisfied that some relaxation is in the interests of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both, of the following paragraphs with respect to the whole, or part, of the annual service:

(i) The Bank may, in its discretion, make arrangements with the member concerned to accept service payments on the loan in the member's currency for periods not to exceed three years upon appropriate terms regarding the use of such currency and the maintenance of its foreign exchange value; and for the repurchase of such currency on appropriate terms.

(ii) The Bank may modify the terms of amortization or extend the life of the loan, or both.

Section 5. *Guarantees*

(a) In guaranteeing a loan placed through the usual investment channels, the Bank shall charge a guarantee commission payable periodically on the amount of the loan outstanding at a rate determined by the Bank. During the first ten years of the Bank's operations, this rate shall be not less than one percent per annum and not greater than one and one-half percent per annum. At the end of this period of ten years, the rate of

commission may be reduced by the Bank with respect both to the outstanding portions of loans already guaranteeed and to future loans if the reserves accumulated by the Bank under Section 6 of this Article and out of other earnings are considered by it sufficient to justify a reduction. In the case of future loans the Bank shall also have discretion to increase the rate of commission beyond the above limit, if experience indicates that an increase is advisable.

(b) Guarantee commissions shall be paid directly to the Bank by the borrower.

(c) Guarantees by the Bank shall provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

(d) The Bank shall have power to determine any other terms and conditions of the guarantee.

Section 6. *Special reserve*

The amount of commissions received by the Bank under Sections 4 and 5 of this Article shall be set aside as a special reserve, which shall be kept available for meeting liabilities of the Bank in accordance with Section 7 of this Article. The special reserve shall be held in such liquid form, permitted under this Agreement, as the Executive Directors may decide.

Section 7. *Methods of meeting liabilities of the Bank in case of defaults*

In cases of default on loans made, participated in, or guaranteed by the Bank:

(a) The Bank shall make such arrangements as may be feasible to adjust the obligations under the loans, including arrangements under or analogous to those provided in Section 4 (c) of this Article.

(b) The payments in discharge of the Bank's liabilities on borrowings or guarantees under Sections 1 (a) (ii) and (iii) of this Article shall be charged:

(i) first, against the special reserve provided in Section 6 of this Article.

(ii) then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

(c) Whenever necessary to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to similar payments on loans guaranteed by it, the Bank may call an appropriate amount of the unpaid subscriptions of members in accordance with Article II, Sections 5 and 7. Moreover, if it believes that a default may be of long duration, the Bank may call an additional amount of such unpaid subscriptions not to exceed in any one year one percent of the total subscriptions of the members for the following purposes:

(i) To redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default.

(ii) To repurchase, or otherwise discharge its liability on, all or part of its own outstanding borrowings.

Section 8. *Miscellaneous operations*

In addition to the operations specified elsewhere in this Agreement, the Bank shall have the power:

(i) To buy and sell securities it has issued and to buy and sell securities which it has guaranteed or in which it has invested, provided that the Bank shall obtain the approval of the member in whose territories the securities are to be bought or sold.

(ii) To guarantee securities in which it has invested for the purpose of facilitating their sale.

(iii) To borrow the currency of any member with the approval of that member.

(iv) To buy and sell such other securities as the Directors by a three-fourths majority of the total voting power may deem proper for the investment of all or part of the special reserve under Section 6 of this Article.

In exercising the powers conferred by this Section, the Bank may deal with any person, partnership, association, corporation or other legal entity in the territories of any member.

Section 9. *Warning to be placed on securities*

Every security guaranteed or issued by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any government unless expressly stated on the security.

Section 10. *Political activity prohibited*

The Bank and its officers shall not interfere in the political

affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.

ARTICLE V

ORGANIZATION AND MANAGEMENT

Section 1. *Structure of the Bank*

The Bank shall have a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Bank may determine.

Section 2. *Board of Governors*

(a) All the powers of the Bank shall be vested in the Board of Governors consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as Chairman.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

- (i) Admit new members and determine the conditions of their admission;
- (ii) Increase or decrease the capital stock;
- (iii) Suspend a member;
- (iv) Decide appeals from interpretations of this Agreement given by the Executive Directors;
- (v) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary and adminstrative character);
- (vi) Decide to suspend permanently the operations of the Bank and to distribute its assets;
- (vii) Determine the distribution of the net income of the Bank.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(d) A quorum for any meeting of the Board of Governors shall be a majority of the Governors, exercising not less than two-thirds of the total voting power.

(e) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Bank, may obtain a vote of the Governors on a specific question without calling a meeting of the Board.

(f) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.

(g) Governors and alternates shall serve as such without compensation from the Bank, but the Bank shall pay them reasonable expenses incurred in attending meetings.

(h) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the President.

Section 3. *Voting*

(a) Each member shall have two hundred fifty votes plus one additional vote for each share of stock held.

(b) Except as otherwise specifically provided, all matters before the Bank shall be decided by a majority of the votes cast.

Section 4. *Executive Directors*

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Bank, and for this purpose, shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be twelve Executive Directors, who need not be governors, and of whom:

(i) five shall be appointed, one by each of the five members having the largest number of shares;

(ii) seven shall be elected according to Schedule B by all the Governors other than those appointed by the five members referred to in (i) above.

For the purpose of this paragraph, "members" means governments of countries whose names are set forth in Schedule A, whether they are original members or become members in accordance with Article II, Section 1 (b). When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the total

number of directors by increasing the number of directors to be elected.

Executive directors shall be appointed or elected every two years.

(c) Each executive director shall appoint an alternate with full power to act for him when he is not present. When the executive directors appointing them are present, alternates may participate in meetings but shall not vote.

(d) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the governors who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(e) The Executive Directors shall function in continuous session at the principal office of the Bank and shall meet as often as the business of the Bank may require.

(f) A quorum for any meeting of the Executive Directors shall be a majority of the Directors, exercising not less than one-half of the total voting power.

(g) Each appointed director shall be entitled to cast the number of votes allotted under Section 3 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted toward his election. All the votes which a director is entitled to cast shall be cast as a unit.

(h) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(i) The Executive Directors may appoint such committees as they deem advisable. Membership of such committees need not be limited to governors or directors or their alternates.

Section 5. *President and staff*

(a) The Executive Directors shall select a President who shall not be a governor or an executive director or an alternate for either. The President shall be Chairman of the Executive

Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The President shall cease to hold office when the Executive Directors so decide.

(b) The President shall be chief of the operating staff of the Bank and shall conduct, under the direction of the Executive Directors, the ordinary business of the Bank. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the officers and staff.

(c) The President, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(d) In appointing the officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 6. *Advisory Council*

(a) There shall be an Advisory Council of not less than seven persons selected by the Board of Governors including representatives of banking, commercial, industrial, labor, and agricultural interests, and with as wide a national representation as possible. In those fields where specialized international organizations exist, the members of the Council representative of those fields shall be selected in agreement with such organizations. The Council shall advise the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may request.

(b) Councillors shall serve for two years and may be reappointed. They shall be paid their reasonable expenses incurred on behalf of the Bank.

Section 7. *Loan committees*

The committees required to report on loans under Article III, Section 4, shall be appointed by the Bank. Each such committee shall include an expert selected by the governor representing the member in whose territories the project is located and

one or more members of the technical staff of the Bank.

Section 8. *Relationship to other international organizations*

(a) The Bank, within the terms of this Agreement, shall cooperate with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article VIII.

(b) In making decisions on applications for loans or guarantees relating to matters directly within the competence of any international organization of the types specified in the preceding paragraph and participated in primarily by members of the Bank, the Bank shall give consideration to the views and recommendations of such organization.

Section 9. *Location of offices*

(a) The principal office of the Bank shall be located in the territory of the member holding the greatest number of shares.

(b) The Bank may establish agencies or branch offices in the territories of any member of the Bank.

Section 10. *Regional offices and councils*

(a) The Bank may establish regional offices and determine the location of, and the areas to be covered by, each regional office.

(b) Each regional office shall be advised by a regional council representative of the entire area and selected in such manner as the Bank may decide.

Section 11. *Depositories*

(a) Each member shall designate its central bank as a depository for all the Bank's holdings of its currency or, if it has no central bank, it shall designate such other institution as may be acceptable to the Bank.

(b) The Bank may hold other assets, including gold, in depositories designated by the five members having the largest number of shares and in such other designated depositories as the Bank may select. Initially, at least one-half of the gold holdings of the Bank shall be held in the depository designated by the

member in whose territory the Bank has its principal office, and at least forty percent shall be held in the depositories designated by the remaining four members referred to above, each of such depositories to hold, initially, not less than the amount of gold paid on the shares of the member designating it. However, all transfers of gold by the Bank shall be made with due regard to the costs of transport and anticipated requirements of the Bank. In an emergency the Executive Directors may transfer all or any part of the Bank's gold holdings to any place where they can be adequately protected.

Section 12. *Form of holdings of currency*

The Bank shall accept from any member, in place of any part of the member's currency, paid in to the Bank under Article II, Section 7 (i), or to meet amortization payments on loans made with such currency, and not needed by the Bank in its operations, notes or similar obligations issued by the Government of the member or the depository designated by such member, which shall be non-negotiable, non-interest-bearing and payable at their par value on demand by credit to the account of the Bank in the designated depository.

Section 13. *Publication of reports and provision of information*

(a) The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to members at intervals of three months or less a summary statement of its financial position and a profit and loss statement showing the results of its operations.

(b) The Bank may publish such other reports as it deems desirable to carry out its purposes.

(c) Copies of all reports, statements and publications made under this section shall be distributed to members.

Section 14. *Allocation of net income*

(a) The Board of Governors shall determine annually what part of the Bank's net income, after making provision for reserves, shall be allocated to surplus and what part, if any, shall be distributed.

(b) If any part is distributed, up to two percent non-cumulative shall be paid, as a first charge against the distribution for any year, to each member on the basis of the average amount of the loans outstanding during the year made under Article IV,

Section 1 (a) (i), out of currency corresponding to its subscription. If two percent is paid as a first charge, any balance remaining to be distributed shall be paid to all members in proportion to their shares. Payments to each member shall be made in its own currency, or if that currency is not available in other currency acceptable to the member. If such payments are made in currencies other than the member's own currency, the transfer of the currency and its use by the receiving member after payment shall be without restriction by the members.

ARTICLE VI
WITHDRAWAL AND SUSPENSION OF MEMBERSHIP: SUSPENSION OF OPERATIONS

Section 1. *Right of members to withdraw*

Any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. *Suspension of membership*

If a member fails to fulfill any of its obligations to the Bank, the Bank may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by the same majority to restore the member to good standing.

While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all obligations.

Section 3. *Cessation of membership in International Monetary Fund*

Any member which ceases to be a member of the International Monetary Fund shall automatically cease after three months to be a member of the Bank unless the Bank by three-fourths of the total voting power has agreed to allow it to remain a member.

Section 4. *Settlement of accounts with governments ceasing to be members*

(a) When a government ceases to be a member, it shall

remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding; but it shall cease to incur liabilities with respect to loans and guarantees entered into thereafter by the Bank and to share either in the income or the expenses of the Bank.

(b) At the time a government ceases to be a member, the Bank shall arrange for the repurchase of its shares as a part of the settlement of accounts with such government in accordance with the provisions of (c) and (d) below. For this purpose the repurchase price of the shares shall be the value shown by the books of the Bank on the day the government ceases to be a member.

(c) The payment for shares repurchased by the Bank under this section shall be governed by the following conditions:

(i) Any amount due to the government for its shares shall be withheld so long as the government, its central bank or any of its agencies remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the liability of the government resulting from its subscription for shares under Article II, Section 5 (ii). In any event, no amount due to a member for its shares shall be paid until six months after the date upon which the government ceases to be a member.

(ii) Payments for shares may be made from time to time, upon their surrender by the government, to the extent by which the amount due as the repurchase price in (b) above exceeds the aggregate of liabilities on loans and guarantees in (c) (i) above until the former member has received the full repurchase price.

(iii) Payments shall be made in the currency of the country receiving payment or at the option of the Bank in gold.

(iv) If losses are sustained by the Bank on any guarantees, participations in loans, or loans which were outstanding on the date when the government ceased to be a member, and the amount of such losses exceeds the amount of the reserve provided against losses on the date when the government ceased to be a member, such government shall be obligated to repay upon demand the amount by which the repurchase price of its shares would have been reduced, if the losses had been taken into account when the repurchase price was determined. In addition, the former member government shall remain liable on any call for unpaid subscriptions

under Article II, Section 5 (ii), to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

(d) If the Bank suspends permanently its operations under Section 5 (b) of this Article, within six months of the date upon which any government ceases to be a member, all rights of such government shall be determined by the provisions of Section 5 of this Article.

Section 5. *Suspension of operations and settlement of obligations*

(a) In an emergency the Executive Directors may suspend temporarily operations in respect of new loans and guarantees pending an opportunity for further consideration and action by the Board of Governors.

(b) The Bank may suspend permanently its operations in respect of new loans and guarantees by vote of a majority of the Governors, exercising a majority of the total voting power. After such suspension of operations the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation, and preservation of its assets and settlement of its obligations.

(c) The liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their own currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

(d) All creditors holding direct claims shall be paid out of the assets of the Bank, and then out of payments to the Bank on calls on unpaid subscriptions. Before making any payments to creditors holding direct claims, the Executive Directors shall make such arrangements as are necessary, in their judgment, to insure a distribution to holders of contingent claims ratably with creditors holding direct claims.

(e) No distribution shall be made to members on account of their subscriptions to the capital stock of the Bank until

(i) all liabilities to creditors have been discharged or provided for, and

(ii) a majority of the Governors, exercising a majority of the total voting power, have decided to make a distribution.

(f) After a decision to make a distribution has been taken

under (e) above, the Executive Directors may by a two-thirds majority vote make successive distributions of the assets of the Bank to members until all of the assets have been distributed. This distribution shall be subject to the prior settlement of all outstanding claims of the Bank against each member.

(g) Before any distribution of assets is made, the Executive Directors shall fix the proportionate share of each member according to the ratio of its shareholding to the total outstanding shares of the Bank.

(h) The Executive Directors shall value the assets to be distributed as at the date of distribution and then proceed to distribute in the following manner:

(i) There shall be paid to each member in its own obligations or those of its official agencies or legal entities within its territories, insofar as they are available for distribution, an amount equivalent in value to its proportionate share of the total amount to be distributed.

(ii) Any balance due to a member after payment has been made under (i) above shall be paid, in its own curency, insofar as it is held by the Bank, up to an amount equivalent in value to such balance.

(iii) Any balance due to a member after payment has been made under (i) and (ii) above shall be paid in gold or currency acceptable to the member, insofar as they are held by the Bank, up to an amount equivalent in value to such balance.

(iv) Any remaining assets held by the Bank after payments have been made to members under (i), (ii), and (iii) above shall be distributed *pro rata* among the members.

(i) Any member receiving assets distributed by the Bank in acordance with (h) above, shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

ARTICLE VII
STATUS, IMMUNITIES AND PRIVILEGES

Section 1. *Purposes of Article*

To enable the Bank to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Bank in the territories of each member.

Section 2. *Status of the Bank*

The Bank shall possess full juridical personality, and, in par-

ticular, the capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property;

(iii) to institute legal proceedings.

Section 3. *Position of the Bank with regard to judicial process*

Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Section 4. *Immunity of assets from seizure*

Property and assets of the Bank, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5. *Immunity of archives*

The archives of the Bank shall be inviolable.

Section 6. *Freedom of assets from restrictions*

To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. *Privilege for communications*

The official communications of the Bank shall be accorded by each member the same treatment that it accords to the official communications of other members.

Section 8. *Immunities and privileges of officers and employees*

All governors, executive directors, alternates, officers and employees of the Bank

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Bank waives this immunity;

(ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien regis-

tration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Section 9. *Immunities from taxation*

(a) The Bank, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Bank shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to executive directors, alternates, officials or employees of the Bank who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Bank (including any dividend or interest thereon) by whomsoever held—

(i) which discriminates against such obligation or security solely because it is issued by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

(d) No taxation of any kind shall be levied on any obligation or security guaranteed by the Bank (including any dividend or interest thereon) by whomsoever held—

(i) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Section 10. *Application of Article*

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Bank of the detailed action which it has taken.

ARTICLE VIII
AMENDMENTS

(a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Bank shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Bank shall certify the fact by formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Bank provided in Article VI, Section 1;

(ii) the right secured by Article II, Section 3 (c);

(iii) the limitation on liability provided in Article II, Section 6.

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

ARTICLE IX
INTERPRETATION

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Bank or between any members of the Bank shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director, it shall be entitled to representation in accordance with Article V, Section 4 (h).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board, the Bank may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Bank and a country which has ceased to be a member, or between the Bank and any member during the permanent suspension of the Bank,

such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Bank, another by the country involved and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Bank. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

ARTICLE X
APPROVAL DEEMED GIVEN

Whenever the approval of any member is required before any act may be done by the Bank, except in Article VIII, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

ARTICLE XI
FINAL PROVISIONS

Section 1. *Entry into force*

This Agreement shall enter into force when it has been signed on behalf of governments whose minimum subscriptions comprise not less than sixty-five percent of the total subscriptions set forth in Schedule A and when the instruments referred to in Section 2 (a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. *Signature*

(a) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Bank as from the date of the deposit on its behalf of the instrument referred to in (a) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) The Government of the United States of America shall inform the governments of all countries whose names are set forth

in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 1 (b), of all signatures of this Agreement and of the deposit of all instruments referred to in (a) above.

(d) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of the price of each share in gold or United States dollars for the purpose of meeting administrative expenses of the Bank. This payment shall be credited on account of the payment to be made in accordance with Article II, Section 8 (a). The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Bank when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(e) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(f) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 1 (b).

(g) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(h) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (a) above may be delayed until one hundred and eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period, the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (d) above shall be returned to it.

(i) Paragraphs (d) and (h) shall come into force with

regard to each signatory government as from the date of its signature.

Section 3. *Inauguration of the Bank*

(a) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member to whom the largest number of shares is allocated in Schedule A shall call the first meeting of the Board of Governors.

(b) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries, to which the largest number of shares are allocated in Schedule A, shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships which they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule B and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(c) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

(d) The Bank shall notify members when it is ready to commence operations.

DONE at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 1 (b).

SCHEDULE A
SUBSCRIPTIONS

	(*millions of dollars*)		(*millions of dollars*)
Australia	200	India	400
Belgium	225	Iran	24
Bolivia	7	Iraq	6
Brazil	105	Liberia	.5
Canada	325	Luxembourg	10
Chile	35	Mexico	65
China	600	Netherlands	275
Colombia	35	New Zealand	50
Costa Rica	2	Nicaragua	.8
Cuba	35	Norway	50
Czechoslovakia	125	Panama	.2
*Denmark		Paraguay	.8
Dominican Republic	2	Peru	17.5
Ecuador	3.2	Philippine Commonwealth	15
Egypt	40	Poland	125
El Salvador	1	Union of South Africa	100
Ethiopia	3	Union of Soviet Socialist Republics	1200
France	450	United Kingdom	1300
Greece	25	United States	3175
Guatemala	2	Uruguay	10.5
Haiti	2	Venezuela	10.5
Honduras	1	Yugoslavia	40
Iceland	1	Total	9100

*The quota of Denmark shall be determined by the Bank after Denmark accepts membership in accordance with these Articles of Agreement.

SCHEDULE B
ELECTION OF EXECUTIVE DIRECTORS

1. The election of the elective executive directors shall be by ballot of the Governors eligible to vote under Article V, Section 4 (b).

2. In balloting for the elective executive directors, each governor eligible to vote shall cast for one person all of the votes to which the member appointing him is entitled under Section 3 of Article V. The seven persons receiving the greatest number of votes shall be executive directors, except that no person who receives less than fourteen percent of the total of the votes which can be cast (eligible votes) shall be considered elected.

3. When seven persons are not elected on the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (a) those governors who voted in the first ballot for a person not elected and (b) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above fifteen percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above fifteen percent of the eligible votes, the fifteen percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until fifteen percent is reached.

5. Any governor, part of whose votes must be counted in order to raise the total of any person above fourteen percent, shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed fifteen percent.

6. If, after the second ballot, seven persons have not been elected, further ballots shall be held on the same principles until seven persons have been elected, provided that after six persons are elected, the seventh may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

SIGNATORIES TO THE ARTICLES OF AGREEMENT

For BELGIUM
L. A. Goffin

For BOLIVIA
V. Andrade

For BRAZIL
Fernando Lobo

For CANADA
Lester B. Pearson

For CHILE
Marcial Mora

For CHINA
Wei Tao-Ming

For COSTA RICA
Gutienez

For CUBA
Guillermo Belt

For CZECHOSLOVAKIA
V. Hurban

For DENMARK
Henrik Kauffmann

For DOMINICAN REPUBLIC
Emilio G. Godoy

For ECUADOR
Galo Plaza

For EGYPT
Anis Azer

For EL SALVADOR
H. D. Castro

For ETHIOPIA
G. Tesemma

For FRANCE
H. Bonnet

For GREECE
C. P. Diamantopoulos

For GUATEMALA
J. G. Granados

For HONDURAS
Julian R. Caceras

For ICELAND
Thor Thors

For INDIA
G. S. Bajpai

For IRAN
Hussein Ala

For IRAQ
Ali Jawdat

For LUXEMBOURG
Hugues Le Gallais

For MEXICO
A. E. Monleros

For THE NETHERLANDS
A. Loudon

For NICARAGUA
G. S. Sacasa

For NORWAY
W. Munthe Morgens-tierne

For PANAMA
J. J. Vallarino

For PARAGUAY
Celso R. Velazquez

For PERU
H. Fernandez-Davila

For THE PHILIPPINE COMMONWEALTH
Carlos P. Romulo

For POLAND
Oskar Lange

For UNION OF SOUTH AFRICA
H. T. Andrews

For THE UNITED KINGDOM
Halifax

For THE UNITED STATES OF AMERICA
Fred M. Vinson

For URUGUAY
Cesar Montro B

For YUGOSLAVIA
Stanoje Simic

APPENDIX "B"

Executive Directors and Alternates of the International Bank for Reconstruction and Development

Member Government	*Executive Director*	*Alternate*
United States	Emilio G. Collado	John S. Hooker
United Kingdom	Sir James Grigg	Maurice I. Hutton
China	Yuen-Ting Shen	-
France	Pierre Mendes-France	Guy de Carmoy
India	N. Sundaresan	Jaganadh Vishwanath Joshi
Netherlands Union of South Africa	J. W. Beyen (Netherlands)	D. Crena de Iongh (Netherlands)
Belgium Norway Luxembourg Iceland	Hubert Ansiaux (Belgium)	Thomas Basyn (Belgium)
Brazil Chile Philippine Republic Bolivia Costa Rica Guatemala Paraguay Panama	Victor Moller (Chile)	Fernando Illanes (Chile)
Czechoslovakia Poland Yugoslavia	Leon Baranski (Poland)	Alois Kral (Czechoslovakia)
Mexico Cuba Peru Uruguay Ecuador Dominican Republic El Salvador Honduras Nicaragua	Luis Machado (Cuba)	Aramis Alvarez (Cuba)
Canada	R. B. Bryce	J. F. Parkinson
Egypt Greece Iran Iraq Ethiopia	Kyriakos Varvaressos (Greece)	Mocharraf Naficy (Iran)

Note: D. Crena de Iongh (Netherlands) will assume his duties as Treasurer of the Bank on December 1, 1946.

Hubert Ansiaux (Belgium) has resigned, effective November 1, 1946. His post will be filled by Franz de Voghel (Belgium).

APPENDIX "C"

List of Depositories

Member Government	*Depository Designated*
Canada	Bank of Canada
Chile	Banco Central de Chile
China	Central Bank of China in Shanghai
Costa Rica	Banco Nacional de Costa Rica
El Salvador	Central Reserve Bank of El Salvador
France	Banque de France
Greece	Bank of Greece
India	The Reserve Bank of India
Iran	Bank Melli Iran
Iraq	Rafidain Bank
Mexico	Bank of Mexico
Netherlands	De Nederlandsche Bank, N. V.
Nicaragua	The Emission Department of the National Bank of Nicaragua
Philippine Republic	Bureau of the Treasury
Poland	Narodowy Bank Polski
United Kingdom	Bank of England
United States	Federal Reserve Bank of New York

Note: Since publication of the First Annual Report, the Bank has been notified of the following Depositories:

Czechoslovakia: National Bank of Czechoslovakia

Dominican Republic: The Reserve Bank of the Dominican Republic

Luxembourg: Caisse d'Epargne de l'Etat (National Savings Bank)

Nicaragua: The Department of Issue of the National Bank of Nicaragua.

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